

ARUBA LONG-TERM DEVELOPMENT PLAN

(PRELIMINARY DRAFT)

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May 1982

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ARUBA LONG-TERM DEVELOPMENT PLAN

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ARUBA LONG-TERM DEVELOPMENT PLAN

1. THE NEED FOR PLANNING IN ARUBA.

1.1 Objectives and Possibilities.

The Mixed Commission of Experts responsible for the document 'Foundation for an Integrated Policy Framework for the Netherlands Antilles in the Eighties' (1979) recommended that each of the Islands of the Antilles should establish small planning units. These units would be assisted by the authorities for the collection and analysis of data necessary for the administration of the Islands. A second report on development assistance to the Netherlands Antilles by the (Dutch) National Advisory Council on Development Co-operation recommended that, in future, aid should be given to the the Islands on the basis of the forthcoming integrated social and economic plans for the Islands.

For Aruba, the preparation of the tourism and physical structure plans is complete, the social plan is scheduled for completion in November 1982 and the macro-economic plan - the subject of this document - will be finalised in mid-1983. The macro-economic plan is scheduled to report in two stages: this first report will concentrate on the longer term context of Aruban development and the second on the definition of a medium term plan for Aruba. This will incorporate the findings of the social, physical structure and tourism development plans. Finally, a primary purpose of the macro-economic plan and other exercises is to establish a continuing planning function in Aruba.

The three tasks of preparing the long-term plan, the medium-term plan and the setting up of a continuing planning capability in Aruba, are very much interrelated. Nevertheless, the objectives of each may be separately stated.

1.2 Long-Term Planning.

The long-term future of a small Island economy such as

Aruba is largely determined by factors beyond the control of its inhabitants. Geo-political forces and changes in the structure of the world economy and their impact on the Caribbean Basin countries will dominate the future of the Island. In this sense, Aruba is vulnerable to the evolving political climate of the Caribbean. Even in such large countries as France or the Soviet Union which have largely practised 'directive' or 'active' planning, long-term planning has been frustrated in the past by both external and internal forces. Also countries like the United States which do not engage in explicit long-term planning but certainly do have long-term objectives, find the objectives of their more 'indicative' or 'passive' planning undermined by factors beyond their control.

What long-term planning attempts to do, therefore, is to identify possible changes in the local and world political economy which may frustrate or promote the social and economic objectives of a country. This obviously requires a country to have a sense of direction or at least an understanding of where it wants to go. To this end, long-term planning can help even a small Island to determine its future.

There are two starting points to long-term planning. The first is essentially forecasting, asking the question of where we appear to be heading over the next 20 years or so. This entails looking for future political and economic changes in the world which may affect the future of Aruba. What, in particular, will be the relative political, economic (and military) strength of the super powers in the region; how will this compare with that of the rising regional middle powers such as Venezuela, Mexico and Cuba or the European (ex-) colonial nations. Such changes are exceedingly difficult to forecast but some speculation about them identifies dangers which may arise and must be guarded against. We may also review the history of other Islands such as Singapore, Grenada and the Malvinas and consider the processes that led to their present conditions. Who would be surprised to see Aruba as part of Greater Venezuela or as a Switzerland of the Caribbean (or at least a Lichtenstein) or Dubai or all three in 20 years time?

An equally important aspect of this forecasting is to examine historical trends within Aruba; in employment, the volume of trade, the changes in the structure of the economy or the provision of public services. Projecting these into the future indicates trends which appear undesirable if continued for much longer into the future. For example, Government employment (excluding public companies) would reach 30% of total employment by the end of the century at current rates of growth. It also provides clues as to processes which may be taken advantage of in developing the economy. As the availability of

physical resources in a small island are inevitably unbalanced in terms of the overall requirements of the economy, it is necessary to foster carefully the human resources (i.e. skills) needed for the proper desired social and economic development.

The second part of long-term planning for Aruba is to identify the long-term objectives of the inhabitants of the Island. These goals are economic, political, social and cultural and may change through time or vary in their relative importance or influence. This is essentially a political matter reflecting the conflicting and the shared interests of the community. Some of these objectives are implicit in the recent history of the Island, for example, a desire for greater independence from the other Islands of the Antilles or the desire for greater personal security or material well-being. Of course such goals are not weighted equally by all inhabitants. Consequently, in taking account of the Island's development objectives, the task is not so much to specify the objectives, but to suggest how different types of policy or economic activity will affect the various apparent objectives. Ultimately, for all social groups there is a compromise to be struck between what is desired and the constraints of internal and external developments.

What is most important for a small Island like Aruba is that not only should it be able to recognise and respond quickly to new development opportunities which may help these goals as they arise, but it must also develop a protection against external changes which may harm them. Thus Aruba should be in a position to take maximum advantage of possible off-shore oil deposits as well as to reduce the vulnerability which arises from the 'openess' of its small economy.

Inevitably, small islands such as Aruba have special problems. A recent United Nations report concludes that, 'The viability of small islands is an area in which very little thinking has been done and further examination of the question should not proceed on the assumption that of necessity small islands are not viable'. Thus, there are no ready-made answers for Aruba and the prescriptions put forward for other developing economies may have limited or no relevance here.

1.3 Medium-Term Planning.

Over the next 5 to 10 years we can lay the foundation for the realisation of long-term development objectives. This medium-term planning can be far more concrete than long-term speculation. This exercise seeks new development opportunities, identifies bottlenecks arising, for example,

from shortages of particular resources, or contradictions in existing policy measures, and better ways of carrying on existing activities. It suggests ways of restructuring the economy, amending undesirable trends, building for long-term objectives and developing a resilience to external changes. Nevertheless, a medium-term plan must still be flexible and constantly reviewed since external and internal events can rapidly change the situation of a small economy. Thus, while the task of the present project is to prepare a set of plans, it is equally important to provide a set of 'tools' whereby planning can be performed. This involves first systematically monitoring the events and changes important to the economy. One purpose of the macro-plan, therefore, is to identify those variables to be monitored. Secondly, it involves the preparation of a rapid and systematic way of evaluating changes and taking them into account in a revised plan.

For both the long and medium term plans, the quality of existing statistics on Aruba are a serious limiting factor. It is often not clear whether apparent changes in the past, say, the level of unemployment on the Island, reflect a real change or simply the way in which the various data were collected. As a better understanding of this historical data is obtained, new insights into the economy become possible and can be built into the plan.

1.4 A Planning Unit.

A continuing planning function in Aruba requires the setting up of a specialised planning unit. The ability to operate such a planning unit depends on the availability of human resources, researchers and Government officials who are capable of, and willing to, engage in and promote the planning exercise. Thus, the principle task of the on-going project is to increase the planning skills of Island personnel. This does not imply that the long and medium-term plans, if accepted by the island, should be totally revised, simply that regular updating will be required. Consequently the preparation of the plan itself is therefore partly a teaching exercise in the setting up and use of the tools of planning.

The balance of active versus passive planning depends on the role that the state (i.e. Government) plays in the economy of the country involved. Whatever the balance to be struck, both active and passive planning requires a basis in adequate data, an appreciation of the functioning of the economy and social needs and objectives.

The present document will set out a diagnosis of the Island and to a considerable extent, will draw on previous data and studies of Aruba and the Netherlands Antilles. The

document will set out alternative actions on the part of Government and private institutions which could be the foundation for a medium-term plan. This is tentative and has yet to be fully evaluated, but on the basis of work to date it may be concluded that important structural elements have been identified.

1.5 Future Data Requirements.

To overcome the fact that existing data in Aruba is poor, inconsistent and often inaccessible, there is a need for a proper statistical office in Aruba. This should rationalise the collection methods by agencies already involved in this area and also to collect data for other purposes including the planning function.

1.6 The Report Structure.

The structure of this report is as follows:

- 1) Context of Aruban Development - possible long-term political and economic changes in the Caribbean and elsewhere and their relevance for the future of Aruba. ×
- 2) Main Characteristics of the Aruban Economy - underlying growth mechanisms, structure and vulnerability.
- 3) Internal Bottlenecks and Social Needs - the relationship between the Aruban economy and the social and regional structure of the Island.
- 4) Key Objectives and Long-Term Perspectives for Aruba - the opportunities and threats posed by different styles of development.
- 5) Towards a Medium-Term Plan - exploration of proposals which may contribute to long-term objectives of Aruba.

2. THE CONTEXT OF ARUBAN DEVELOPMENT.

Most aspects of the development of Aruba have been determined by outside forces. The colonial struggle of the European powers in the Caribbean eventually left the economically rather uninteresting Antilles in Dutch hands. The turbulent history of the Caribbean Basin led to a unique culturally mixed population in Aruba. In the present century, the proximity to the then politically unstable Venezuela, made the Islands an ideal site for vulnerable oil refineries. The second world war provided a great boost to the economy. In all this, few self-determining choices were made by Arubans. Perhaps the first significant choice was to build a tourist industry to counter the loss in revenues and employment from the declining oil sector. Both the shifting economics of oil and the growth in demand for tourism were, however, factors beyond Aruban control. This decision to promote tourism in itself is significant because it shows that deliberate planning steps can be taken and implemented in Aruba. Since that time the involvement of Arubans in Aruba has grown but perhaps the second truly significant Aruban-determined step will be the one towards independence. This decision takes place in the context of the post-second world war process of decolonisation by the European powers. Like other less important plans for Aruba in the future, it is crucially affected by outside forces and by the heritage which remains from the past.

2.1 The Geo-Political Context.

Aruba is caught in the cross-wind of most global political confrontations. In the immediate vicinity of Aruba in the Caribbean Basin this is fortunately not a open military confrontation. The main thrust of the confrontations are considered below. Although all currently affect the Caribbean Basin, they bring waves of change to the area. These confrontations interact strongly and as discussed below lead to politically contorted stances by most of the actors involved. This makes the establishing of a secure pattern of relationships by Aruba, with or without independence, an exceedingly tenuous business over the longer term.

A very schematic picture of the external forces for change in the Caribbean is that change in the post-Columbian era was determined first by the struggle between European colonial powers, substantially displaced up to and after the two world wars by the influence of the United States

and European decolonisation. This process in turn has been overtaken in significance first by the East-West confrontation and more recently by the North-South confrontation. As this confrontation leads to an increasing influence of the developing countries in the world, so is the confrontation between these countries likely to dominate events in the region. The evolving long-term political context of Aruba may be placed in the context of these several phases of global change as they affect the Caribbean. The impact of each of these confrontations may be expected to rise and fall with time. As discussed in more detail below, the East-West confrontation is primarily the struggle between the global super-powers, the United States and Soviet Union in their attempts to bring lesser states into their respective spheres of influence. The North-South confrontation is partly one of decolonisation arising from the declining influence of the European powers in the North-North confrontation and the rising importance of Third World countries in the world political economy, while the South-South confrontation is the struggle by the new middle-range Latin American and Caribbean powers to establish their own spheres of influence in the region. For Aruba, the role of Venezuela in this struggle is clearly of paramount importance.

This schematic view, illustrated in Figure 2.1 suggests for example, that European powers will no longer desire or be able to counter threats to their (ex) colonies in the Caribbean, nor even will the United States exercise the same level of defence of its economic interests in the region. Rather the future of the area will be increasingly determined by the activities of middle level power in the region although this may be strongly influenced by the working through of the East-West confrontation. Clearly, therefore, Aruba should be in a position to respond to the changing forces of global restructuring.

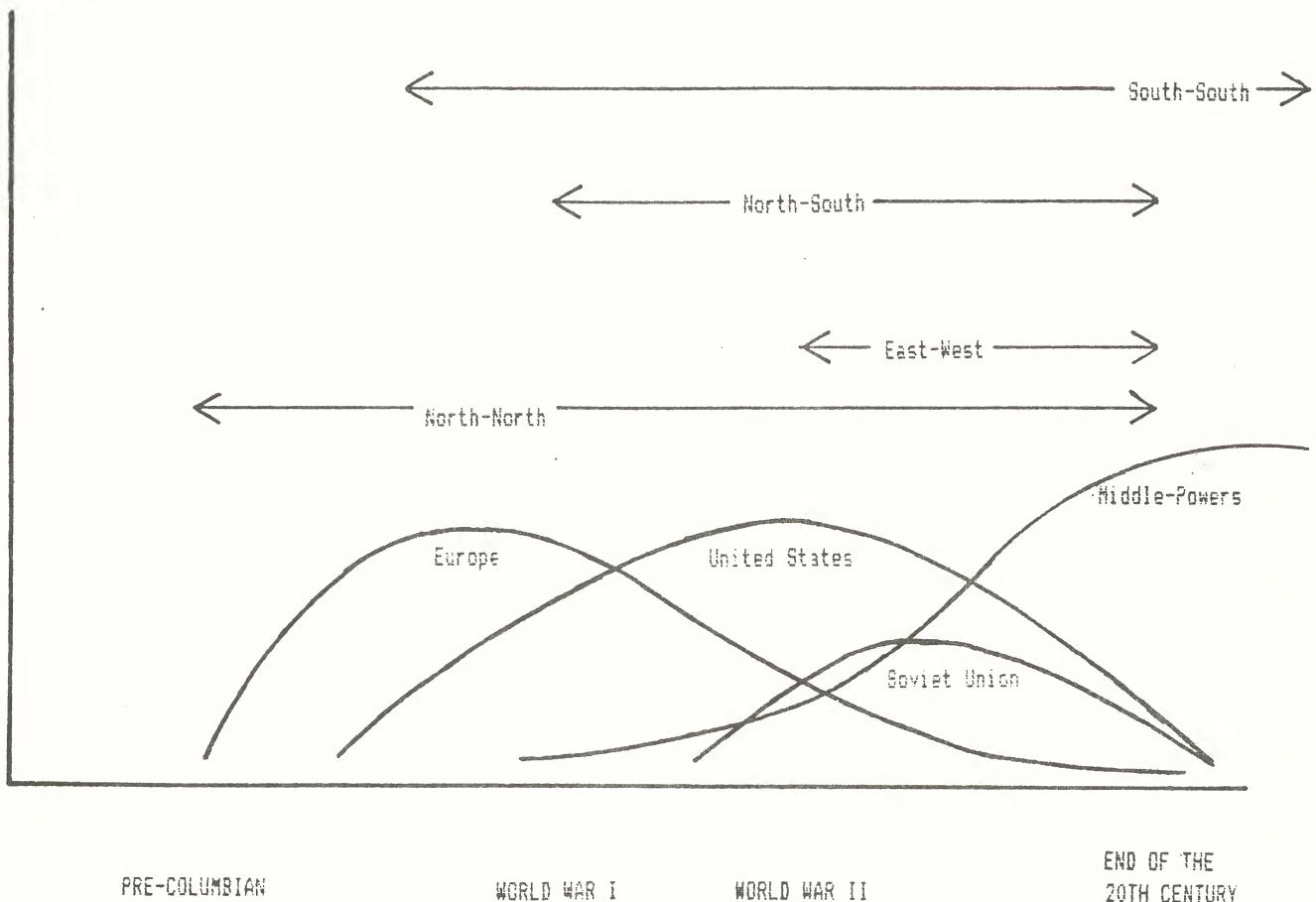
2.2 Changes in Economic Power.

Before attempting to understand the particular external political pressures that Aruba may feel in this global restructuring, it is well to consider how the relative economic strengths of the various major actors in the world are likely to change over the next decades. This is obviously important for several reasons. First, the success of the Aruban economy in the past or in the future has to be judged against the performance of other economies. Second, the possibilities for further Aruban development depend on the type and distribution of growth in the rest of the world. Expanded tourism, for example, is in large part a result of the widespread growth of real incomes in the Northern industrial economies, and more

TABLE 2.1

RELATIVE IMPORTANCE OF MAJOR POWERS
AND GLOBAL CONFRONTATIONS
IN THE CARIBBEAN REGION

DOMINANT FORCES



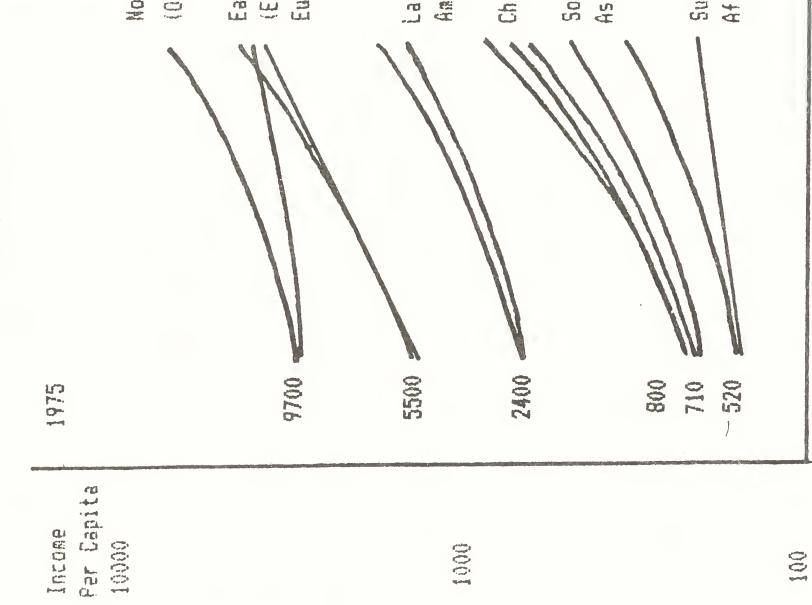
recently in the newly-rich oil producing economies; the long-run price of oil and world demand for oil is obviously crucial to the latter's growth. Third, the relative economic growth is related to geo-political influence. The interlinkages between these factors and their implications for Aruba will also be considered later.

The problem with all political and economic forecasts, especially those about long term trends and possibilities is that they are very dependent upon ideological inputs even when there is a common empirical base. But even if only those forecasts by Western institutions are considered the trends seem to favour relative gains by Eastern economies relative to the West, at least in the medium-term. Figure 2.2 shows the projections of three Western agencies, the OECD (1979), the World Bank (1980) and the (United States) President's Commission of the Year 2000 (1980). The geo-political groups do not all correspond exactly to the West/East/South division used here, but despite this, several relevant conclusions can be drawn. The OECD forecast especially, sees a fairly rapid closing of the average per capita income gap between West (OECD countries) and East (CMEA countries). By the Year 2000, the per capita income of Eastern Europe is expected to be at least half that of the OECD. The World Bank (1980) too, projects a more rapid economic growth rate for the CMEA economies. However, even though CMEA growth rates are reckoned to have declined much less than those of industrial market economies during the post-1975 'crisis' the assumption of the World Bank studies appears to be that recovery from crisis will be delayed in the CMEA. Even so, the long run growth rate of the Centrally Planned Economies (including the Peoples Republic of China) is expected to exceed that of the market economies.

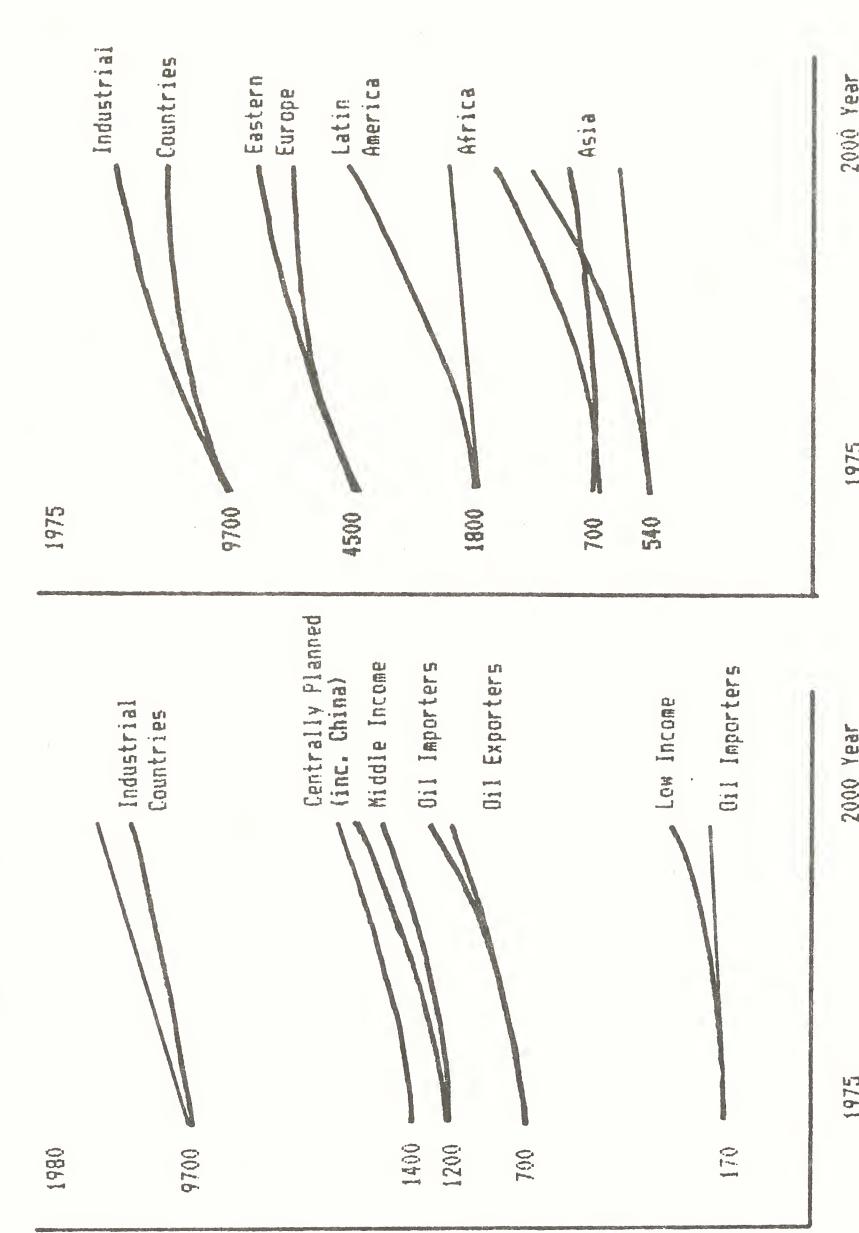
In the World Bank Development Report (1980) the most optimistic projection for the growth rate of the industrial market economies falls from a pre-1980 level of 2.9% per annum to 2.4% per annum in 1980-1985 picking up to 2.5% per annum in 1985-1990. For the middle and low income oil importing developing countries the corresponding rates are 2.1, 2.6 and 3.5 and 2.7, 2.4 and 3.2% per annum respectively. For the Centrally Planned Economies the growth rate is expected to systematically decline from 3.8 to 3.4 to 3.3% per annum. The oil exporters too show declining medium-run growth from a steady 3.5% per annum up to 1985 to 3.4% per annum by 1990. The Global 2000 Report based on the separate forecasts of several United States Government departments (including those of the Central Intelligence Agency for projections of Eastern European growth rates) projects a closing of the income gap between centrally planned and market economies. This particular set of three forecasts sharing a more or less common ideological perspective, therefore, appear to support the view that the Soviet economy will tend to strengthen

COMPARISON OF 'HIGH' AND 'LOW' PER CAPITA INCOME PROJECTIONS

OECD INTERFUTURES REPORT (1979)



WORLD BANK DEVELOPMENT REPORT (1980)



GLOBAL 2000 REPORT (1980)

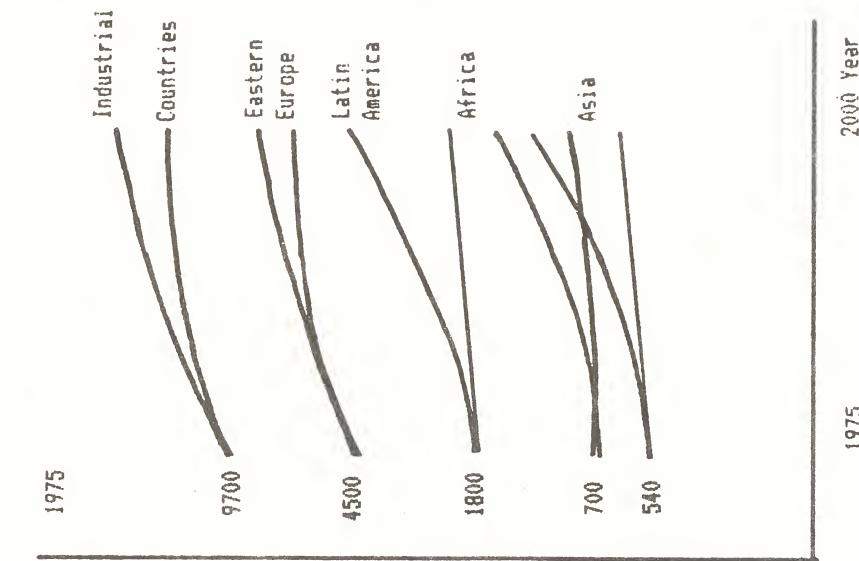


TABLE 2.2

Note: In each case the highest and lowest projections or growth rates are taken. For the World Bank Projections 1985-90 anticipated growth rates are used.
 Figures have been converted to 1980 US dollars. Note that there are differences in the region groups used by different agencies.

relative to the West rather than the reverse.

Even without accepting differences in ideological inputs there are still major differences in the other assumptions employed between the three forecasts considered. In particular the relative growth of oil exporters and importers and levels of trade depend crucially on the world price of oil assumed. This is apparently taken by the World Bank forecasters to remain constant at the 1980 level in real terms. This assumption contrasts markedly with the assumptions about real costs of agricultural, material and energy resources in the Global 2000 Report and most other studies, which assume that the real price of energy will continue to rise. Some more recent forecasts argue that the real price of oil will fall steadily in the medium-term (up to 1990) with implications for the future of Aruba.

The long-run decline of both industrial and centrally planned economy growth rates predicted by the Global 2000 report contrasts with that of other agencies and arises from their pessimistic view on the future availability of natural resources. Again prognoses about the long term availability of raw materials conflict. But for example, on the question of non-fuel minerals both the Western (OECD) and the Soviet (CPSU) agree. The former points out that although overall shortage 'does not justify a change (in policy), the real problem is access'. The latter states that while 'emerging scarcities will not lead to price increases' they will have an 'increasingly perceptible influence on international relations'. However, the situation between nations is very differentiated. The super-powers (the United States and Soviet Union) for example, have an increasingly strong position relative to Europe and Japan. Furthermore, despite it's gloomy tone, the U.S. Global 2000 Report sees the real cost of food doubling by the end of the century. Only the United States is massively increasing its exports to many centrally planned and other industrial and developing economies. Thus the United States may possess an economic and political lever as powerful as the oil weapon of the oil exporting economies and which may compensate for its other emerging weaknesses.

To analyse all possible configurations of economic and political power structures arising from these conflicting forecasts, would be a daunting task. Clearly, however, some of the underlying 'principles' and mechanisms behind the historical and future manoeuvring can be related to the situation of Aruba.

2.3 Confrontations in the North.

Historically the evolution of the Caribbean Basin's political economy was determined by the struggle between the Northern European colonial powers. To a significant extent this is still the case although the relative influence of the ex-colonial European powers including the Netherlands has greatly declined relative to other North countries. These countries have also declined relative to Japan, although Japanese influence in the Caribbean is still largely economic through rapidly expanding trade rather than overtly political.

While the main actors in the East-West confrontation are obviously the United States and the Soviet Union, also involved are their allies and client states in the Caribbean Basin and elsewhere. The United States postures as "anti-communist" and the Soviet Union as "anti-imperialist". The origins of the organisation of American States reflect this posture of the United States and also her earlier adherence to the Monroe Doctrine, itself aimed largely at delimiting the influence of European colonial powers in the Western hemisphere. Although they may be opposed in other aspects of global restructuring (see below) many Latin American states and Caribbean Islands fall into this ideological divide. In part, these confrontations reflect a restructuring of the world economic and political order. This involves, in particular, a decline in the power of the United States in relation to the Soviet Union, the Asian powers (particularly Japan and China), and Third World Nations including especially Mexico, Venezuela and other Latin American Nations.

Both the Soviet Union and the United States direct development aid into the Caribbean region. Even without its contribution to Cuba, the Soviet Union places about 25% of all development aid in the Latin American region. Several studies and reports show that Soviet aid is tied to strategic interest. For the Soviet Union it may be important ultimately to have a military platform as close to its principle adversary as West Germany or the United Kingdom is to the Soviet Union. The United States for its part has attempted to reverse this process, most recently, for example, through the Caribbean Basin Plan. Some commentators see this as an attempt to create a stronger bond of economic interest in the region which ultimately may be transformed into an area of 'strategic interest'. Certainly the aid has been directed to nations directly under threat, such as El Salvador, or show-pieces of the free market such as Jamaica.

Despite efforts to counter its relative decline, the most

likely outcome is that the influence of the United States will be reduced in the Caribbean Area. This is likely to be a long and destabilising process. Further, the pattern of alliances which will evolve during this process will be volatile. For example, middle powers which may ally with the United States on most issues may seek support from the Soviet Union in particular circumstances. The case of the Argentine with respect to the Malvinas crisis is a very current example. While such patterns of alliances do not deny the importance of an underlying ideological confrontation they illustrate that, in the short run at least, such issues appear to be subservient to political or economic expediency. Whether this apparent expediency should be viewed in turn as part of a long term strategy on the part of the nations involved is debatable. For the situation of Aruba this may be a mute point.

Within the East-West conflicts, nations which may support the position of another in some circumstances may be diametrically opposed to it in another. Aruba, with the Antilles, is embedded in the East-West conflict through their partnership with the Kingdom of the Netherlands and Holland's membership of NATO. Economically, through trade, Aruba is structurally embedded in the Western economic system and it will be argued below that this provides both opportunities and constraints on future development as well as the rationale for the present economic and social structure of Aruba.

The presence of significant Dutch investments in Curacao and of Exxon in Aruba are clearly major reasons for the western alliance to defend the Antilles against any outside aggressors but as the importance of these refineries declines so does the necessity to defend them. Obviously too, in any direct military exchange between the United States and the Soviet Union, the refineries (as in the last World War) are a prime target. With an overt struggle for power between client states of the United States and the Soviet Union in the Caribbean, the Netherlands would wish to avoid involvement in the Antilles given the risks of a more direct conflict in Europe. Any commitment by Holland to defend the Antilles or Aruba would obviously be reduced when political independence came about.

On some major strategic issues there are significant differences within the western alliance. In particular, European views on defence are coloured by possibilities for trade and more especially by the proximity of Soviet forces just as those of the United States would be if the Soviet Union gained a military foothold in Central America or the Caribbean. Even the future of NATO itself as an anti-communist alliance is to some extent in doubt.

2.4 The North-South Divide.

In the Caribbean context the North-South confrontation is at least as important as the East-West confrontation. In this area too, several European powers including the Netherlands, France and Sweden are more flexible. These countries seem somewhat more prepared to encourage a relative strengthening of the developing countries in the world economy. This is despite the fact that the United States encouraged de-colonialisation by the European powers in the immediate post-war era.

The conflict over the influence of Third World economies relative to Western economies (especially) has several aspects. The first is the rising importance of middle-power developing countries particularly Mexico, Venezuela and Cuba as economic forces and influences. The second is the issue of post-war decolonisation largely the result of the relative decline of the European powers. To some extent the diminishing power of Europe and with it the possibility for economic and political self-determination are offset by the rising strength of the Third World middle-powers. It has become a difficult and possibly fruitless exercise for the ex-colonial powers to engage in gun-boat diplomacy far from home. Even for the super-powers such exercises have often proved abortive as the United State's experience in Vietnam illustrates.

Whatever their differences in the South-South confrontation, Latin American middle-powers exhibit a high level of solidarity with respect to the North. This support by the middle-powers is partly due to the perception of themselves as being 'threatened' by the super-powers and ex-colonial powers and from an expression of Latin American solidarity.

The Mexican position in supporting a politically wide spectrum of Caribbean states (including Cuba and Grenada) against interference from the United States, rests on its own proximity to that country and its historical experience. But by showing solidarity with other nations, Mexico may expect support in return from other small nations attempting to survive in a hostile global political environment in a similar manner. By maintaining a 'high profile' in international affairs, for example, through prominence in the Non-Aligned Movement, islands such as Cuba and Grenada too make themselves less vulnerable to possible intervention by the United States. Whether or not this provides the full story, it does suggest that Aruba despite differences in its own political outlook, should adopt a high profile if it is to survive independence.

2.5 The Increasing Importance of Changes in the South.

The decline of the European ex-colonial nations shifted the ability to influence events in the Caribbean region to the United States. This influence in turn is eroded by the changing balance of the East-West confrontation and the rising importance of the middle-level powers. While the nations of Latin America especially have a high degree of consensus with regard to the North countries interference in the region, they are themselves engaged in a process of political restructuring within the region. This South-South confrontation too has several facets. One facet is the vying for influence in the Caribbean area and in the international forum by the new middle-level powers. For example, Mexico and Cuba especially have sought to be recognised as leaders of the Third World. A related second facet is the redefinition of borders within the South. This includes both the process of de-colonisation within the South, for example, the ceceeding of territories from existing nation states, and of recolonisation, the annexation of small states or territories by the regional powers.

As implied earlier the behaviour of the middle-power states arises from their role as participants in the East-West confrontation and from their part in the North-South confrontation. But disputes and expansionism within the South are also important factors. The history of Latin America and the Caribbean has left many frontier disputes; Peru-Ecuador, Brazil-Argentina-Chile, Venezuela-Guyana and Guatemala-Belize. Several of these disputes involve the middle- range powers. In some cases the outcome of these territorial disputes will have a substantial impact on the economic and hence political power of the nations involved, particularly when territorial disputes over large scale natural resource deposits are involved. In addition, in their efforts to industrialise, developing countries have also become increasingly competitive for world markets as well as resources. In the setting up of economic communities designed to encourage industrialisation such as the Andean Pact, it has, nevertheless, usually been the regional middle powers who have gained from the arrangement.

If it is indeed the case that in the medium-term the Latin American middle powers will come to dominate the Caribbean Basin, then it is likely that zones of strategic influence will be negotiated implicitly, explicitly or even by military confrontation. Venezuela has provided the major Latin influence in the past in the Antilles and may be expected to have increasing influence in the future and it is important that Aruba should be in a position to control the manner in which this influence is to be exercised.

When this is coupled with the differing types of support and tolerance offered by the middle-powers, it could have implications for both the economic and political links of Aruba in relation to international affairs. The second facet of South-South confrontation is therefore recolonisation within the South.

The proximity of Venezuela to the Antilles inevitably leads to her having a territorial interest. The new found importance of Venezuela as a middle-level power rests substantially upon its oil wealth. The economy is critically dependent on income from this source. Should oil be discovered in the Antilles and the present oil fields in Venezuela become depleted, a rationale for the annexation of Aruba or the Antilles could be contrived and implemented. Whether this should be viewed by potential allies as part of a North-South or a South-South confrontation (discussed next) depends on the arguments put forward for the annexation. Clearly Venezuela would engender greater support from South countries should the process be viewed as part of the Latin American anti-colonialist struggle.

Politically Venezuela has largely supported centre-right non-authoritarian regimes and has opposed leftist regimes, especially Cuba; this may be because economically and politically the Venezuelan regime feels less secure than that of Mexico. Nevertheless, the attitude of Venezuela is that social justice is pre-requisite for political stability in the Caribbean region. Indeed the view that 'Denying the fact of existing unequal distribution of wealth amounts to suicide' has been attributed to the present regime.

One reason put forward for the apparent opposition of Venezuela to a break-up of the Antilles has been that this would leave the Islands politically unstable and provide a stepping stone for Cuban (i.e. Soviet) forces into Venezuela in the near future. In these circumstances the United States would probably support Venezuelan action to 'secure' the Antilles. In any case, current United States policy is to encourage the Latin American middle-powers to take responsibility for the defence of the region. This is itself an aspect of the relative decline of the United States but reflects the fact that the United States is currently less threatened by these middle-powers than by the Soviet Union. In the future the United States may not condone such an action by Venezuela but like the Netherlands it may be powerless to prevent it.

Both the claims of Argentina over the Falkland-Malvinas or possible intervention of Venezuela in the Antilles can be viewed as a process of recolonisation within the South. As matters stand, neither case would be termed an act of liberation but rather one of neo-colonialism. By contrast

there are also processes of decolonisation within the South. The Aruban desire for independence from Curacao or the separation of St Kitts-Nevis from Antigua are examples of this. Obviously it is this aspect of the global confrontation which is of immediate concern to Aruba and which is therefore a topic to be dealt with at greater length in the medium-term development plan.

2.6

Some Conclusions on the Geo-Political Orientation of Aruba.

The Need for Caution:

Much of what has been said above is speculative. It is possible that the United States will restore its early post-war hegemonic rule in the world; it is equally possible that nuclear war will destroy the super-powers and hasten surviving developing countries to a superior status. There can be no consensus on these events and even the motivations of the various actors are likely to change with circumstances. There are several conclusions to be drawn from the above discussion. The most important are as follows.

While it may be proven to be an over-cautious attitude, it seems reasonable to work on the assumption that in view of its size and location, Aruba leads a precarious political existence. The first conclusion is that just as Aruba's economic success in the past has depended upon its relative political stability, so will its success in the future. This conclusion should be built into the long-term development plan. It may be concluded that whatever the merits of revolutionary socialism in some other countries in the Caribbean region, the result would almost certainly be a collapse of the key economic activities on the Island, tourism and oil refining, should this form of Government be established in Aruba. This would especially be the case if the United States and Venezuela remained as Aruba's principal markets for tourism and oil supplies at the time of the transition. Both countries (particularly the United States) would be more likely to support an authoritarian right-wing Government but with strong reservations. However, there would be contrasting external responses to extreme political change within Aruba. Other nations notably Mexico and Holland, would be more tolerant of the change while others, Cuba and the Soviet Union must be expected to support the socialist alternative.

Finally, in addition to its vulnerability to world geo-political forces, Aruba is equally vulnerable to changes in the structure of the world economy. This will be considered as part of the next section.

3. THE ECONOMIC STRUCTURE OF ARUBA

3.1 Alternative Perspectives on the Economy.

For the preparation of the long and medium-term plans, the economic structure of Aruba will be considered in several ways:

- 1) A comparison of structure and performance with other islands.
- 2) A discussion of the social and economic accounts of production sectors, households and Government including external balances. This emphasises the distributive aspects of the economy.
- 3) A consideration of long and medium-term trends in employment, wages, prices, profitability, capital formation and international trade by sector of the economy and geographic location of the Island.
- 4) An analysis of the dynamics of growth in the economy.

Each of these detailed reviews highlights a particular aspect of the economy and permits a 'diagnosis' of its present performance. For an initial discussion of long-term trends it is useful first to take a more simplified view of the economy which brings out some key aspects of past and possible future developments. This will lead to a quantitative consideration of the economic consequences for the Island of several of the issues considered in the last section. The calculations presented here incorporate many of the findings from the more detailed analysis for the medium-term plan. It also enables some of the possibilities for more advantageous development of the Island which comes out of the detailed analyses explored.

3.2 Driving Forces in the Economy.

The simple picture of the economy taken here is that the economy of Aruba is driven by three major external forces. These are oil, tourism and development aid. This picture reflects the economic evolution of the Island: the establishment of the LAGO oil company and more recently the tourist industry, with development aid contributing to the

infrastructure needs and social balance of the Island. It also reflects the change in the regional development on the Island from San Nicolas to Oranjestad.

Apart from a small amount of export earnings from the rest of the economy and the embryonic off-shore sector, there are no other (official) foreign earnings for the Island. The rest of the economy and the Government sector is therefore at present almost totally dependent on these external driving forces. The oil and tourist sectors provide wage income to households, some profits and taxes to households and Government and a demand for goods and services from the rest of the economy. LAGO buys water, electricity and some construction services, while the tourist sector buys some foodstuffs and other merchandise. The rest of the economy buys oil for domestic use from the oil company and goods from itself. Households and Government also buy goods and services from the rest of the economy. Development aid creates a demand for goods from the rest of the economy. All this creates further employment and income, leading to additional demand and so on.

Since development aid in Aruba is used largely in infrastructure, it is investment rather than current account. Together with other investment it generates income in the rest of the economy.

Thus the economy cranks itself up on the back of these external driving forces. Growth in the oil sector, tourism or aid creates additional growth in the rest of the economy. As long as these continue to contribute income, the overall economic growth is largely assured. If these are taken away then the level of economic activity in the Island declines dramatically. This decline comes not just from a loss of income from the oil and tourism sectors directly but also from the loss of direct and indirect income in the rest of the economy and Government.

Public sector employment however would not necessarily decline with the rest of the economy. Indeed, in the past decade, growth in Government employment has cushioned the declining employment in the oil industry. In this one sense, therefore, there is a fourth but internal force in the economy, which, depending on the efficiency with which it carries out its function, may contribute to, or detract from, growth in the rest of the economy.

In many respects the Aruban economy is no different from most other trading economies, developed or developing, however, it is different in its dependence on very few and vulnerable external sources and on the size of these external factors relative to the rest of the economy. In comparison with most other Caribbean Islands, Aruba is very fortunate in having three 'legs' to stand on. Few other

Islands have the bonus of a high income from oil, successful tourism and a high level of development aid.

This picture of the economy is illustrated in Figure 3.1 in which all the income flows considered above are shown by continuous lines.

3.3 The Openness of the Economy.

There are several other key features of the economy. First, all sectors of the economy are highly dependent on imports. The oil sector depends on a politically sensitive supply of oil, the tourist sector imports far more merchandise than it purchases in the rest of the economy, while most of what is sold by the latter is imported with relatively little additional processing. With the single exception of construction, the Aruban economy is especially weak in its own basic production. This is partly due to the aid conditions and uneven resources in Aruba and partly to the fact that over the years labour has left traditional production activities for the better pay and life style of other sectors.

Second, much of the economy is not owned by Aruba. Tourism and especially oil have been built largely on the basis of foreign investment and consequently a high proportion of the operating surplus leaves the economy. This is also true of household savings and the funds from pension and insurance schemes.

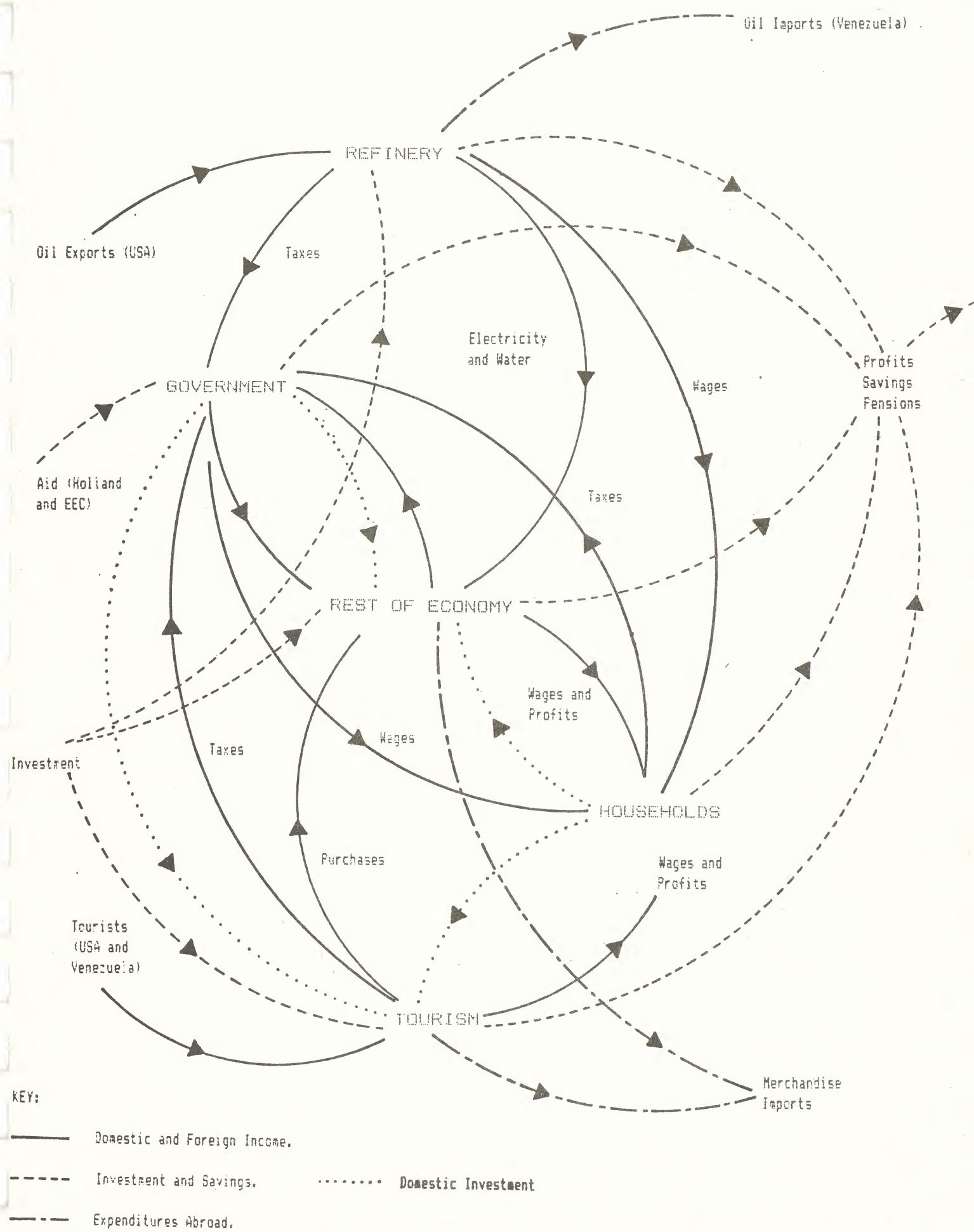
A third key feature of the economy is the high level of profits in the economy as a whole. Without entering a detailed discussion at this point, two reasons for this are the perceived high risk of investment in the Caribbean and the style of economic competition in the region.

These additional features of the inflows of goods and investment and outgoings of profits from the economy are also shown in Figure 3.1 and emphasize the 'openness' of the Aruban economy.

Most of what has been said so far is common knowledge, at least in Aruba. What might be in dispute are the size of some of the various flows involved and the implications of this picture. These will be considered later. Hopefully this picture provides one common starting point for discussion of future planned for changes in the Aruban economy. The suggestions to be made later in this report for strengthening the economy and reducing its vulnerability, cannot be arrived at directly from this simple picture since they depend, in part, on the structure of the economy within the categories already described. For example, the size of firms and the roles that different

FIGURE 3.1

THE STRUCTURE OF THE ARUBAN ECONOMY.



types of firm should play in the economy are considered to be key variables.

3.4 Vulnerability of the Aruban Economy.

Instability or unevenness in growth in Aruba comes from several directions and some have been mentioned. The most important are the vulnerability of the three main driving forces, the demand for oil (or rather income from oil), the demand for tourism and the continuation of development aid. Possible changes are largely beyond the control of Aruba. This and the fact that for Aruba the future of all three are interrelated to a considerable extent, makes the Aruban economy additionally vulnerable. All these factors will be examined in more detail later but some examples are useful here.

The number of jobs and purchases from the rest of the economy by the oil sector depends largely on the price and availability of crude oil, demand for refined products and technological changes in the refinery. Demand depends on factors such as the strength of the present recession, especially in the United States, shifts to new sources of energy or more efficient use (i.e. technical change) and the oil companies' ability to keep its market. In Aruba income depends on changes in technology in the refinery and the ability of the rest of the economy to supply adequate utilities and construction services. Income to Government, however, largely comes from the profit of the oil company which is more sensitive to the price spread (i.e. difference) between crude and refined oil products. This depends in a complex way on the relative strengths of the oil producers (especially the OPEC arrangement), the multinational oil companies and the severity and duration of the present world recession.

In the medium-run, fall in demand may be accompanied by an increase in the price spread (as in recent years) so income tends to be unpredictable and irregular. Since oil imports are derived largely from Venezuela, the availability of oil for the refinery depends on political considerations and the economic fortunes of that country. The way in which this might affect Aruba, is not unambiguous. For example, steady growth in Venezuela (high crude oil prices and high demand) could lead to Venezuela acquiring its own refinery and lead to the closure of the LAGO refinery.

The income from tourism is vulnerable to some of these same factors although not necessarily in the same direction. For example, a growth in the Venezuelan or United States economies should be expected to lead to added tourist income for Aruba. But even here the situation is not totally predictable. For instance, a growth in incomes may

cause tourists to venture further afield, especially if transport costs dependent on fuel costs were reduced. Conversely, Aruban tourism would not necessarily decline with a prolonged recession as evidenced by its recent growth. Recent Aruban experience is different from the rest of the Caribbean and it is possible that the Island actually benefits from instability in the rest of the Caribbean. Obviously social instability in Aruba could change this.

Changes in the technology of tourism will affect income derived from this source. Some styles of tourist development require relatively few employees or attract only a particular group of tourists. Others can be built and operated with varying amounts of local capital and management. A shift to condominium type tourism, a different mix of low or high rise hotels or locally owned enterprises, for example, could significantly affect the number of visitors, level of employment and the profits retained.

In both the oil and tourism sectors, investment tends to be irregular and to some extent cyclical. Thus, a number of profitable years may lead to a period of new investment. This creates jobs in construction which provide additional income throughout the rest of the economy. In the hotel sector, as a new wave of building opens, wage rates are pushed up as these hotels compete for labour, but occupancy rates fall leading to lower profits for a few years, deterring new investment. As the number of tourists catches up with the number of rooms available, profits rise and a new phase of investment begins. In the oil industry especially, new investment has been associated with greater efficiency (especially higher labour productivity), thus income from new investment in the short-run can lead to a loss of jobs in the longer term unless output is correspondingly increased as a result of the increased efficiency.

Development aid too has been irregular so that public infra-structure and private enterprise construction have overlapped rather than provided a stabilising counterbalance. But here again the future of development aid, whatever Aruba's need, is likely to depend on the length of the world recession (especially in the Netherlands and Europe), changes in the world political economy, the process of decolonisation and the political decisions of the United States.

Clearly, there are a number of key external determining factors to the Aruban economy. Many of these are likely to have a correspondingly large effect on other countries of the Caribbean region and the world at large. Several of the changes are unpredictable or controversial. In particular, the growth rates for the world regional

economies shown in Figure 2.2 earlier, are each presented as 'optimistic' projections. Even if with hindsight, this optimism proves to be justified it is fortunate for Aruba that the various impacts of the external changes are not fully correlated.

All of these topics will be taken up in more detail later. But even with the items so far mentioned, it is not possible to examine all the potential combinations of events and certainly there is insufficient data to make all the necessary connections. This emphasises the need for a flexible approach to planning. It is, however, important at this stage to understand the range of possible situations that the Aruban society might face in the future and to provide a set of ground rules for the evaluation of development possibilities. Some possible scenarios will be presented later to illustrate how external changes and Aruban actions could affect the economic and social future of Aruba. In doing so, some interrelationships between the internal structure of the economy and external forces will be further highlighted.

Which ground rules emerge from the earlier discussions largely depends on the detailed social and economic objectives for the Island. Given such common global objectives as a reasonable and secure material standard of living, employment and maintaining a satisfactory balance of payments, some conclusions may be drawn. There are some external conditions under which Aruba could expect a sustained period of economic growth but it is also clear that the economy has little resilience against untoward external events. With the present level of uncertainty that exists, it makes sense not only to take advantage of favourable opportunities but also to have a solid insurance against less favourable future circumstances. At the present time Aruba is not in the best position to take advantage of new opportunities, neither is she able to defend herself against a precarious existence.

3.5 Basic Data for the Economy.

This section presents some calculation which support the discussion of the previous sections.

The data for these calculations is obtained from an examination of the private and public sector accounts. This examination is sufficiently detailed for the major income flows between sub-sectors of the economy to be identified. For this depth of analysis it is necessary to separate, for example, the income and expenditures of shops, restaurants and hotels specifically oriented to the tourist trade and to calculate the various transactions between the oil company and the rest of the economy. The details of these calculations are provided in the series of working papers listed in this report.

Table 3.1 shows the magnitude of some major payments in the economy in 1979 - the most recent year for which it is presently possible to assemble the necessary data. Although, in some respects this was an exceptionally profitable year for Aruba since the oil company showed a substantial profit and the level of tourism continued to grow. Nevertheless, the data are characteristic of the pattern of distribution in the economy and the continued economic growth in the period from 1975 to 1979.

The Table shows that the composition of the flows in the economy that arise from each sector are very different. Given the substantial repatriation of profit income from the oil and tourist sector net income, rather than value added is the more useful measure of the contribution that each sector makes to the economy. This does not take account of downstream and multiplier effects but these will be considered later. In addition, the oil company some NAF 60 millions from the oil refinery, about 2% of total output. These transactions contribute to additional indirect income and jobs in the rest of the economy. This apart, most transactions of the oil sector are abroad.

The net direct income to the economy from tourism is less than from oil at about NAF 70 millions. This includes about NAF 10 millions of direct and indirect taxes and takes account of some NAF 9 millions of repatriated profit. Although the number of jobs is some 3-4 times total wages paid are considerably less since average wages in the tourist sector are about 20% of those in the oil refinery. Of the total NAF 250 million guilders turnover in the tourist sector about NAF 200 millions come from tourists and the remainder from local Arubans mainly as purchases from tourist oriented retail outlets.

The net earnings of the rest of the economy amount to about

TABLE 3.1

ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	4064	249	1152	244	5711
JOBs	1293	4412	13700	4589	23994
WAGES	64	44	172	99	381
PROFIT	295	25	274	0	595
TAXES	37	10	27	0	74
INVEST	45	7	120	8	180
IMPORT	3594	75	236	2	3908
EXPORT	3988	204	69	0	4261
NET	102	72	424	61	660

ABBREVIATIONS

OIL - Oil refinery
 TOUR - Tourist oriented hotels, restaurants,
 retail outlets and casinos.
 REST - All other private and public
 companies.
 GOVT - Combined Island and Central
 Government.
 ALL - Total of above sectors.
 SALES - Total sales in production
 sectors or total tax and aid
 revenues of Government.
 PROFITS - Operating surplus.
 TAX - Combined direct and indirect
 taxes.
 NET - Total income to Aruba after
 deduction of repatriated income.
 JOBS - Employment in labour years.
 IMPORTS - Excluding capital goods.
 EXPORTS - Includes foreign exchange
 expenditures of tourists.

INCOME UNITS ARE (1979) NAF MILLIONS

NAf 425 millions. Some Naf 270 millions of this are operating surplus of which some 10% is sent abroad. More than 57% of the total workforce is employed in this sector with average wage rates comparable to those in the tourist sector. The sector shows large imports, about Naf 236 millions, which account for most household consumption.

Finally the Government sector contributes some Naf 60 million guilders after aid, debt repayments and wages of Central Government personnel are taken into account. In total, some 20% of jobs are in the Government sector (excluding publicly owned companies).

In total, although gross sales from the economy are nearly Naf 6 billion, the net direct income is only about 10% of this at about Naf 660 millions. This reflects primarily the weight of the oil company in the economy and the level of foreign investment overall.

3.6 The Response of the Economy.

To show just how important the oil and tourist sectors and development aid are to the economy, the above calculation may be repeated by removing the major driving forces one by one. This answers the question: Where would Aruba be without her external links?

Table 3.2 shows the effect of assuming there to be no oil refinery in Aruba i.e. if it had closed suddenly at the end of 1978. A few jobs remain in the oil sector to service the local economy but no further taxes are paid. Nearly 1300 jobs are lost in the oil sector but, because of links with the rest of the economy, altogether in the private sector alone, nearly six thousand jobs would disappear as the effect of the closure worked its way through the economy. This figure does not include jobs lost from Government. Thus for every job lost in the economy, about four are lost mainly from the non-tourist private sector. In addition profits outside the oil sector are halved and Government revenues reduced to about two thirds of the previous level.

Table 3.3 shows the result of assuming that the tourist sector suffered a similar fate so that no income from overseas visitors remained. A small number of jobs may remain in the sector for purchases by Aruban households but substantially about 90% of all jobs would disappear. Profits and Government revenues would again fall. Further, for every job lost in the tourist sector, another would be lost in the rest of the economy.

Table 3.4 shows the effect of losing development aid. This would be less traumatic but an additional 700 jobs would be

TABLE 3.2

ARUBA 1979 COLLAPSE OF OIL SECTOR					
ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	51	235	772	156	1215
JOBs	16	4157	9182	4589	17945
WAGES	0	42	115	99	258
PROFIT	3	24	183	0	211
TAXES	0	9	18	0	28
INVEST	0	6	80	5	93
IMPORT	45	70	158	1	275
EXPORT	0	204	69	0	273
NET	0	67	284	24	377

TABLE 3.3

ARUBA 1979 COLLAPSE OF TOURIST SECTOR					
ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	30	18	453	105	607
JOBs	9	333	5384	4589	10316
WAGES	0	3	67	99	171
PROFIT	2	1	107	0	111
TAXES	0	0	10	0	11
INVEST	0	0	47	3	51
IMPORT	26	5	92	0	126
EXPORT	0	0	69	0	69
NET	0	5	166	4	176

TABLE 3.4

ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	26	16	396	59	499
JOBs	8	299	4716	4589	9613
WAGES	0	3	59	99	162
PROFIT	1	1	94	0	97
TAXES	0	0	9	0	10
INVEST	0	0	41	2	44
IMPORT	23	5	81	0	110
EXPORT	0	0	69	0	69
NET	0	4	145	24	175

TABLE 3.5

ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	13	5	209	22	251
JOBSS	4	103	2490	407	3005
WAGES	0	1	31	8	41
PROFIT	1	0	49	0	51
TAXES	0	0	4	0	5
INVEST	0	0	21	0	22
IMPORT	12	1	42	0	57
EXPORT	0	0	69	0	69
NET	0	1	77	9	88

lost from the private sector simply through lost Government sector purchases.

So far, Government sector employment has been assumed unchanged. In fact, the decline of the Government sector revenue would result in a further decline in employment. The results of this calculation are given in Table 3.5. If Government sector employment declined *pro-rata* with Government revenues, then only about 400 jobs would remain in the sector, and lost purchases from Government employees from the rest of the economy would result in the loss of 2500 jobs.

Assuming that no other changes had occurred - there was no mass migration or change in productivity or new enterprises started up - about 85% of the workforce would be unemployed. The net income in the economy would have fallen to about 11% of its previous value and per capita real consumption to about 9%, thus becoming comparable with the average level in a 'typical' less developed country.

All this is rather dramatic and exaggerated. Nevertheless, the calculations clearly demonstrate the vulnerability of the economy to external changes and the need to build up a resilience in the economy against rapid shifts in external forces.

3.7 If Present Trends Continue.

In the period 1975 to 1979 the course of history in Aruba was quite different from the above picture. Although the volume of oil and level of employment in the oil sector continued to decline slowly, revenues increased markedly from this source and throughout the economy over the period. These trends also appear to have continued at least up to 1981. If the trends in the export of refined oil products, the expenditure of tourists and the level of development aid are projected to 1985 then the corresponding picture of the economy in that year may be calculated. This is shown in Table 3.6.

The calculation requires other assumptions: in particular, that trends in real wages, in labour productivity and import propensities for intermediate products or raw materials be maintained. It also assumes that the level of employment in the Government sector continues to rise at the same historic rate, that world prices for refined oil products continue to increase faster than for crude oil and that tourists are not dissuaded by increasing prices in the tourist sector. It also assumes that the domestic and foreign investment needed to finance these rapid developments would be forthcoming.

TABLE 3.6

=====
 ARUBA 1985 IF 1975-79 TRENDS CONTINUED
 =====

ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	4089	394	1834	716	7034
JOBs	1201	5184	18735	6079	31201
WAGES	69	55	204	98	428
PROFIT	695	83	805	0	1585
TAXES	280	16	71	0	369
INVEST	35	9	165	20	230
IMPORT	3230	105	206	4	3547
EXPORT	3980	306	69	0	4356
NET	351	126	937	261	1676

TABLE 3.7

=====
 ARUBA 1985 JOBS SHIFTED TO PRIVATE SECTOR
 =====

ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	4089	394	1839	715	7040
JOBs	1201	5189	16074	3416	25881
WAGES	69	55	231	97	454
PROFIT	695	83	781	0	1561
TAXES	280	16	70	0	367
INVEST	35	9	165	20	230
IMPORT	3230	105	207	4	3548
EXPORT	3980	306	69	0	4356
NET	351	126	942	261	1681

With these variedly optimistic assumptions, total employment in the Island by 1985 would reach about 31,000. Since the local workforce would be unlikely to grow much beyond 25,000 to 26,000 by this time, the growth would require the immigration of about 5000-6000 additional expatriot workers. Even if the level of employment in the Government sector remained at the 1979 level, an additional 4000 workers would be needed. More importantly, many of the problems already pointed to which are associated with the present economic structure of the Island would remain, even if the historic trends continued.

3.8 Some Other Possibilities.

As a preview to discussion later in the report, it is useful to consider some other alternatives.

Given the apparent strong growth in employment if present trends continue, the possibility of reversing the historical rise in Government sector employment and reversing the decline on average real wages in the sector, stands out. To attract Government sector employees to the private sector would almost certainly require that real wages in the 'rest of the economy' rise at least the same rate that they have apparently been falling over the period 1975 to 1979. This in turn might entail a significant increase in labour productivity in the private sector. The results of introducing these changes into the previous calculation are shown in Table 3.7.

The calculation shows that employment and workforce would now be roughly in balance and that the net income of Aruba would have increased substantially over the 1979 level.

In this situation, income distribution and wage differentials within and between the various sectors of the economy would have shifted. For example, Table 3.7 shows that tourist sector wages have fallen behind those in the rest of the economy. The result of also bringing tourist sector wages into line with those in the 'rest of the economy' while keeping prices constant, is shown in Table 3.8. The result is that while the level of tourist income from abroad remains unchanged, profitability in the sector falls.

This redistribution within the sector leads to an increase of net income to the economy from the tourist sector. This arises because only a relatively small share of tourist sector wage income is repatriated. In addition, there is an increase in the net income to the economy arising from indirect effects. This is due to the increase in household spending throughout the economy. Overall therefore, the long-run implications of the last change are ambiguous.

TABLE 3.8

ARUBA 1985 IF TOURIST SECTOR WAGES RISE					
ITEM	OIL	TOUR	REST	GOVT	ALL
SALES	4090	395	1855	720	7062
JOBs	1201	5202	16210	3416	26030
WAGES	69	74	233	97	475
PROFIT	695	64	788	0	1548
TAXES	280	16	70	0	368
INVEST	35	9	167	21	232
IMPORT	3231	106	209	4	3551
EXPORT	3980	306	69	0	4356
NET	351	133	950	263	1698

Foreign investment in the tourist sector may decline as a result of the decreased profitability. Conversely, the net income of the economy and hence the possibility for increased local investment, increases.

While such calculations are inevitably crude and beg a number of queries, they can give additional insight into the workings of the Aruban economy and the trade-offs inherent in any changes whether or not they are planned. They also suggest that it may be possible, in principle, to design a development strategy which can be to the overall benefit of the Aruban economy while taking account of the very many internal and external constraints. The next section considers in more detail, some of the internal factors to be accounted for.

4. INTERNAL CONSTRAINTS.

(This section anticipates some findings of the 1981 Census of Population, the 1980 Household Budget Survey and the Aruban Social Plan).

The smallness of Aruba and the simple model of the economy given above deny the true complexity of the society and also of the economy. Again without entering into detail here, some additional discussion of the internal structure is needed in order to appreciate the impact of potential economic changes.

4.1 Cultural Diversity.

The previous waves of development in Aruba have led to a diverse but structured population. Thus, within the society there are a range of cultural orientations; different institutions draw on different cultural norms for their operations and in addition there are distinctive external value systems impinging on the society. Because of this structure, different socio-cultural groups are likely to be able to cope with or benefit from different styles of development with contrasting degrees of success.

Even among the so-called 'real Arubans' (roughly those people in Aruba before the arrival of the oil company) and which also includes people of Latin American, Dutch, Carib Indian and African descent, there are groups with a metropolitan lifestyle and a more traditional way of life which is being increasingly eroded.

The remainder of the population includes people from the West Indies (originally coming to work in the refinery) and United States citizens (to operate the refinery), and more recent Dutch and other European arrivals, Surinamens, Curacaon's, Chinese and people from the Middle East. The dominant culture amongst the West Indian community is metropolitan Caribbean, while the remainder are Western or Westernised but tending to respect their cultural origins (generally having entered the community as entrepreneurs).

Legislatively the society reflects its origins and present status as a part of the Kingdom of the Netherlands. Thus there is a Dutch oriented business ethos (except in North American owned enterprises) and a Dutch based system of education but despite this, a Latin Caribbean oriented workforce.

The political culture too is Latin oriented. Despite

formal Dutch origins it is populist and functions to some extent through patronage. From outside the Island, the conditions attached to Dutch aid, the advice of foreign consultants reflects external value systems. The legislation of the Central Government in Curacao often also strongly reflects the views of Curacao with its own cultural history and social needs.

In the past the paternalistic organisation of the oil refinery and the availability of Dutch aid and the lack of a substantive local government have undermined the opportunity for self-determination. This has meant that apart from the allocation of resources through patronage, the responsibility for encouraging a just social distribution has not yet been taken over by the Island's body politic.

The very many tourists both reinforce and undermine the existing culture of Aruba. Tourism, television, and the education in Holland and the United States of many Arubans has to some extent created an almost uniformly imitative consumer culture with material aspirations largely oriented to European and American standards.

While there is to some extent a conflict of value systems in Aruba, the situation is not yet polarised as in many similarly complex societies, where aggressively entrepreneurial cultures have developed alongside more passive or historically subdued societies; and there is further a universal sense of an Aruban identity. Whether for this reason or because incomes are higher than in most of the Caribbean, permanent emigration by Arubans is less common than from other islands. Nevertheless a considerable number of more highly educated Arubans live abroad.

4.2 Production Structures.

The economic structure of the Island to some extent reflects the structure of the population. Thus the largest firms like Lago and the major foreign owned hotels, have North American or European management (as do the Aruban Government owned hotels).

The 'rest of the economy' in the simplified picture employed earlier includes construction, utilities, non-tourist commerce and recreation, transport, banking and other service sectors. These sectors may be divided into large, small and informal sector firms. Again as an over-generalisation, the large firms (from 10 to 50 employees) have significantly better operating efficiency than small firms reflected by a higher level of labour productivity and profitability. This is shown in Table 4.1.

TABLE 4.1

 COMPARISON OF PRODN./EMPL. FOR LARGE AND SMALL FIRMS

SECTOR	LARGE FIRMS	SMALL FIRMS	AVERAGE	RATIO
AGRICULTURE	67.37	44.41	52.91	1.51
INDUSTRY	206.37	46.6	173.4	4.42
UTILITIES	108.16	0	108.16	0
CONSTRUCTION	28.88	31.16	29.91	.92
WHOLESALE	289.77	166.15	237.22	1.74
RETAIL	109.17	101.74	106.68	1.07
HORECA	43.11	31.22	42.25	1.38
COMMUNICATION	45.27	93.51	62.45	.48
FINANCE	83.5	93.19	90.9	.89
OTHER SERVICE	30.89	26.02	27.1	1.18
BANKING	63.58	0	63.58	0
OIL REFINING	3142.55	0	3142.55	0

INCOME UNITS ARE (1979) NAF MILLIONS
 EMPLOYMENT UNITS ARE LABOUR YEARS

 COMPARISON OF PROFIT/CAPITAL STOCK INDEX FOR LARGE AND SMALL

SECTOR	LARGE FIRMS	SMALL FIRMS	AVERAGE	RATIO
AGRICULTURE	-.13	-.04	-.06	3.58
INDUSTRY	.28	0	.15	65.02
UTILITIES	.12	0	.02	0
CONSTRUCTION	.14	.02	.03	6.82
WHOLESALE	1.78	.54	1.02	3.3
RETAIL	.26	.08	.17	3.04
HORECA		.08	.28	6.2
COMMUNICATION	.23	.07	.13	3.19
FINANCE	.22	.31	.29	.72
OTHER SERVICE	.06	.02	.03	2.17

NOTE LARGE FIRMS HAVE >10 EMPLOYEES
 SECTOR 3 EXCLUDES OIL, SECTOR 8 EXCLUDES CENTRAL BANK DATA

Large firms also have a higher level of ownership by non-Arubans. There is also some correlation between particular sectors and non-Aruban born entrepreneurs. Informal sector firms, by definition not easy to enumerate, tend to be Aruban operated and mainly involved in construction and maintenance activities.

Although, apart from the oil sector, the industrial sector has always been rather small, the last two decades have seen a shift from an industrial to a post-industrial economy. The industry and trade sector firms founded in recent years are relatively smaller than in the past, while the tourist and service sector enterprises are significantly larger and more numerous.

4.3 Regional Structure.

The historical shift which has taken place in the sectoral structure of production of Aruba is fairly directly related to the regional structure of the Island. Thus, the decline and rationalisation of technology in the oil industry has largely affected San Nicolas, and the growth of tourism has promoted the growth of Oranjestad which has grown and prospered, at least by Caribbean standards.

Consequently since the cultural and economic structures of the Island are related to each other as well as to the regional structure of the Island, social groups have been affected by the change in different ways.

The main impact has been the imbalance created between the location of population and employment. A last aspect of regionalism in Aruba has been the retreat from the hinterland, of the Island (the Cunucu) to the main towns followed by a subsequent suburbanisation in recent years, with wealthier families even adopting a 'Californian ranch' life style in the country-side. Future changes in the Island could have an equally significant impact on the regional structure. Further rapid decline of the oil refinery, for example, would leave San Nicolas a 'ghost' town unless some contingency plans were laid. Conversely, the exploitation of off-shore oil may make it once again a 'boom' town. In this respect San Nicolas may be more sensitively balanced than the rest of the Island.

4.4 Household Distribution.

The overall distribution of both earned and unearned income in Aruba is roughly what might be expected for a society caught between the European and Latin economies, but not one that has received such considerable infusions of

development aid. Figure 4.2 shows the estimated distribution of household income (in 1972).

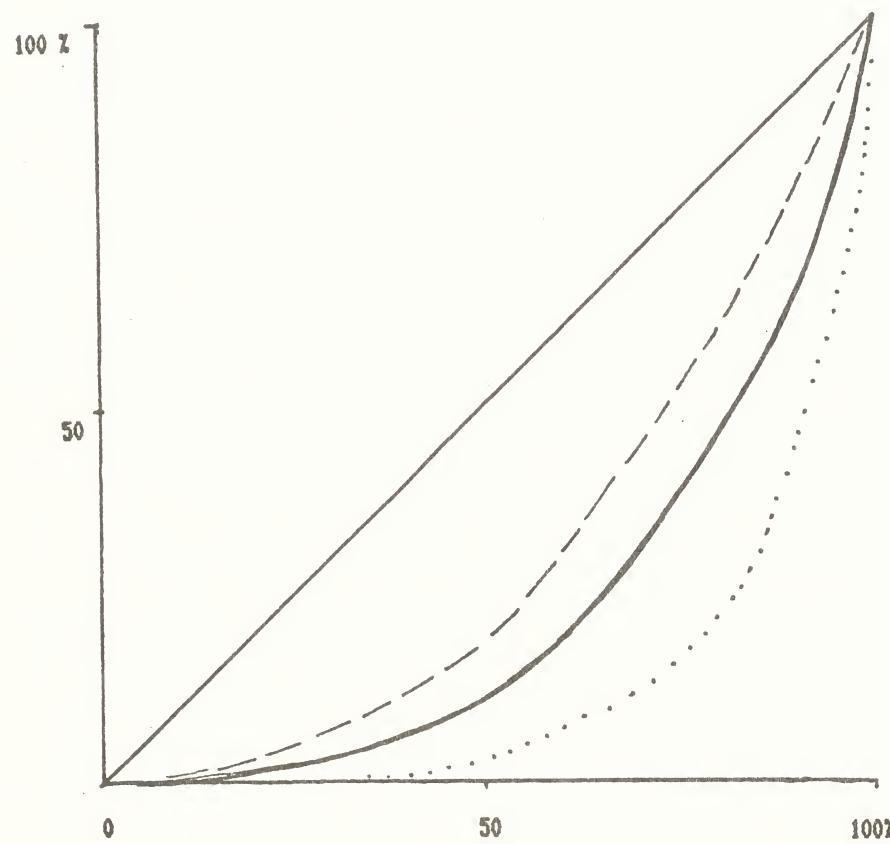
As may be inferred from what has already been said the distribution of household incomes in Aruba is related to both the cultural and the regional distribution of the Island. A significant proportion of families are still considered to have less than a basic needs standard of living and for some household groups real incomes have (probably) fallen over the last decade. There is also a continuing shortage of housing despite the importance of a home-centred social life in the community and the efforts of housing foundations. This reflects, in part, the dearth of long-term credit facilities in Aruba. The shortage of credit is especially acute for low income families.

By comparison with metropolitan societies, Aruban consumers do not appear to be price conscious or discriminatory in their purchasing habits, thus, household expenditure is inefficient and effective incomes further reduced. Higher income families with direct experience of metropolitan markets are able to exercise greater discretion or purchase major items directly (on vacations or through business activities). Such factors serve to widen further the true disparities of living standards on the Island.

The age structure of the population has shifted and the proportion of elderly to school age Arubans is increasing; hence the increase in overall demand for schooling has levelled, while the need for pensions is still increasing. Both systems are inadequate viewed against the objective of greater self-determination and long-term material security for the Island.

TABLE 4.2

LORENTZ CURVES FOR HOUSEHOLD INCOME DISTRIBUTION.



KEY

Total	—
Wage and Salary	- - -
Profit

4.5 Public and Social Services.

The Social Plan will be considering in detail the needs of the Aruban population for social security, dwellings, sanitation, electricity and water and insurance and pensions.

The existing multiple health and pension schemes are very complex and uneven in the benefits they confer. The oil sector and Government schemes are relatively more comprehensive than other sectors but, nevertheless, structured in a similar fashion. This has a deleterious effect on labour mobility in Aruba.

A second problem is that the social projects are financed or carried out by different sources and agencies, development aid, foundations and Central Government, and that they are sometimes contradictory in their objectives and effect.

Finally, access to many public and social services is governed to some degree by the dictates of the system of patronage. This applies to access to public housing, social security benefits and employment in public enterprises and Government departments. This inevitably contributes to an overall lack of efficiency in these services.

4.6 Employment, Skills and Wages.

Table 4.3 gives a detailed breakdown of trends in employment in Aruba in the period 1961-1980. It shows in particular, the systematic decline in the number of jobs in the oil refinery and the corresponding growth in employment in the tourist sectors and in Government. Since 1975 the composition of the workforce has tended to stabilise with Government sector employment (including education) accounting for some 25% of the total workforce.

The level of actual unemployment in Aruba is relatively low by Caribbean standards while the participation rate is high and increasing. The more acute problem in Aruba is that much economic and Government activity is relatively inefficient. Skills which are, in principle, available are not used, and skills which are needed are not created by the existing system of education and training. The relatively low rate of unemployment arises partly through the increase in the Government's absorption of displaced labour, and through the inflexibility of labour legislation. Other mechanisms cushion unemployment. For example, construction workers move between the formal and

TABLE 4.3
WAGE AND EMPLOYMENT DATA FOR ARUBA 1961-1980

EMPLOYMENT	(1961)	(1972)	1972	1973	1974	1975	1976	1977	1978	1979	1980
AGRICULTURE	142	96	52	52	57	61	65	50	62	65	72
MINING	---	---	---	---	---	128	209	205	205	200	215
OIL	4404	1497	1578	1541	1533	1407	1214	1326	1290	1293	1333
INDUSTRY	4919	2193	2146	2180	2127	2108	2094	2100	2110	2115	2120
OTHER INDUSTRY	515	696	568	639	594	701	817	831	820	822	787
UTILITIES	300	389	414	411	420	574	634	640	650	652	655
CONSTRUCTION	1535	1512	2224	4012	2943	2138	2516	2000	2450	2500	2550
TRADE AND HORECA	2435	5986	6067	6346	6349	6860	6996	7850	7395	7719	7700
WHOLESALE	---	---	1031	1079	1016	1262	1301	900	1310	1321	1345
RETAIL	---	---	2791	2945	2857	2648	2728	3300	3017	3130	3151
RESTAURANTS & CAFES	---	---	443	444	508	515	490	650	525	580	586
HOTELS & PENSIONS	---	1397	1802	1878	1968	2435	2476	3000	2546	2691	2710
TRANSPORT & COMMUNIC	550	1153	618	714	959	881	890	1050	950	955	960
BANKING & INSURANCE	140	479	672	736	762	982	1147	1250	1370	1390	1471
OTHER SERVICES	1935	---	3444	3452	3433	3221	3441	2950	3470	3500	3800
PRIVATE SECTOR TOTAL	12695	---	15337	17851	17050	16954	17992	17950	18662	19077	19490
CENTRAL GOVERNMENT	---	---	969	908	921	921	1084	1205	1160	1165	1190
ISLAND GOVERNMENT	---	---	2043	1983	2490	2694	2859	2900	3227	3424	3357
TOTAL GOVERNMENT	---	---	3012	2891	3411	3615	3943	4105	4387	4589	4547
EDUCATION	---	---	769	842	823	850	851	895	---	---	---
PUBLIC & PRIVATE	14910	15914	18649	20597	20461	20570	21935	22950	23049	23666	24039
WORKFORCE	17385	18635	20988	21533	22542	23094	23646	25450	24750	25510	25850
UNEMPLOYMENT (N.I.)	2475	2721	2339	791	2081	2525	1711	2500	1701	1634	1811

1979 INCOME DATA INCLUDES EMPLOYERS SOCIAL COSTS. SOCIAL COSTS FOR OTHER YEARS BASED ON ESTIMATED WEIGHTED AVERAGES BY SECTOR
 --- INDICATES DATA UNRELIABLE OR UNAVAILABLE

informal sectors as the number of major projects changes. Expatriot workers from Europe and the United States employed in the higher skilled and the more menial jobs usually have fixed term contracts. Arubans (from other Caribbean islands and Latin America) migrate or return, depending on their relative job prospects in Aruba and the Netherlands.

However, wage levels vary widely across sector, type of firm and skill level of employees. Wage levels by sector tend to be considerably lower in small firms, partly reflecting the lower skills of workers in these firms. The relatively small but highly trained oil sector workforce have the highest average incomes, followed by Government, the rest of the economy and the tourist sector. Further there are significant differences between sectors, in the rate at which real incomes change. Real incomes in the oil sector and tourism are increasing while those in the rest of the economy and the Government sector are decreasing. Average real wages across the economy have risen slowly. The trends in real wages between 1972 and 1980 are shown in Table 4.4.

To some extent these changes can be explained through supply and demand considerations in the labour market, shifts in the composition of skills within sectors, the indexing of minimum wages public sector wages and the supply of variously trained school leavers. The steady decline of average real wages in the Government sector, in particular, arises from the systematic departure of skilled workers to the private sector (attracted by higher incomes) and the growth in the number of less skilled workers (attracted by secure employment, better public service, pension and insurance facilities and higher incomes; and appointed often through the patronage system). This particular process is self-reinforcing.

Partly as a result of this process, the technical expertise necessary to operate or maintain some Island public sector functions is inadequate. Related to this are the number of inappropriate technical choices made in the past as a result of inadequate advice from outside the Island and a failure from inside to appreciate the implications of the choices. This applies, for example, to computerisation of the Island records and the provision of clean water on the Island.

There is also a shortage of skilled labour available in some specific private sector activities and a lack of jobs for educated Arubans in others. Many highly paid management workers are commonly expatriots while Aruba suffers a 'brain drain' of other skills. Conversely, while the banking and insurance sector has expanded rapidly across the sector, real wages have systematically fallen. The rigid education system is considered a barrier to the

TABLE 4.4
WAGE AND EMPLOYMENT DATA FOR ARUBA 1961-1980

REAL WAGE ('79)	(1961)	(1972)	1973	1974	1975	1976	1977	1978	1979	1980
AGRICULTURE	---	---	3.9	3.0	4.2	7.9	9.6	10.4	6.5	8
MINING	---	---	---	---	15.7	13.2	---	---	14.4	---
OIL	43.3	40.3	39.9	---	51.5	47.4	48.7	49.1	55.4	---
INDUSTRY	34.2	31.3	31.5	30.8	33	---	27.1	38.3	---	---
OTHER INDUSTRY	10	10.2	10.4	19	23.1	---	17.2	21.3	---	---
UTILITIES	17.3	19.2	19.3	16.1	16.4	16.7	13.8	22.7	---	---
CONSTRUCTION	12.8	15.4	15	11.8	12.8	18.4	10.1	11.9	---	---
TRADE AND HORECA	10.1	10.6	10.8	10	11.7	12.2	9.8	10.8	---	---
WHOLESALE	9	10.1	11.4	8.4	9.9	---	---	10.7	---	---
RETAIL	11	11.2	11	10.8	11.7	10.6	---	10.2	---	---
RESTAURANTS & CAFES	5.6	6.3	6	6.1	8.9	7.4	---	6.8	---	---
HOTELS & PENSIONS	10.3	10.9	11.4	10.7	13.2	13.7	---	12.5	---	---
TRANSPORT & COMMUNIC	15.6	14.8	11	11.5	15.1	---	9.7	17.4	---	---
BANKING & INSURANCE	15.5	15.6	15.2	12.1	11.6	12.9	11	13.5	---	---
OTHER SERVICES	4	4.7	5	5.7	7.2	5.2	8.6	8.6	---	---
PRIVATE SECTOR TOTAL	13	13.6	13.3	12.4	13.5	15.3	11.3	14.5	---	---
CENTRAL GOVERNMENT	24.3	26.2	30.3	29.5	27.7	25.9	---	24.9	---	---
ISLAND GOVERNMENT	29.2	32.2	26.2	24.5	22.9	25.7	---	20.5	---	---
TOTAL GOVERNMENT	27.6	30.3	27.3	25.8	24.2	25.8	---	21.6	---	---
EDUCATION	---	---	---	28.1	28	---	---	---	15.9	---
PUBLIC & PRIVATE	13.2	13.7	13.5	12.7	13.3	14.2	---	13.9	---	---

1979 INCOME DATA INCLUDES EMPLOYERS SOCIAL COSTS, SOCIAL COSTS FOR OTHER YEARS BASED ON ESTIMATED WEIGHTED AVERAGES BY SECTOR

--- INDICATES DATA UNRELIABLE OR UNAVAILABLE

TABLE 4.5

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COMPARISON OF WAGES/EMPL. FOR LARGE AND SMALL FIRMS

SECTOR	LARGE FIRMS	SMALL FIRMS	AVERAGE	RATIO
AGRICULTURE	10.33	6.83	8.12	1.51
INDUSTRY	22.12	11.45	19.92	1.93
UTILITIES	26.03	0	26.03	0
CONSTRUCTION	11.96	12	11.97	.99
WHOLESALE	16.93	2.38	10.75	7.09
RETAIL	11.87	7.06	10.26	1.68
HORECA	12.12	4.07	11.54	2.97
COMMUNICATION	16.65	12.4	15.13	1.34
FINANCE	21.01	8.21	11.22	2.55
OTHER SERVICE	16.98	5.86	8.34	2.89
BANKING	18.91	0	18.91	0
OIL REFINING	49.14	0	49.14	0

=====
NOTE LARGE FIRMS HAVE >10 EMPLOYEES

SECTOR 3 EXCLUDES OIL, SECTOR 8 EXCLUDES CENTRAL BANK DATA

training and socialisation of Aruban's from non-metropolitan oriented families. Children pass through a succession of imposed language systems which while it results in a multilingual society, the experience is alienating and non-creative and ultimately less productive than might be expected.

Wage levels in the Antilles are high compared with most other Caribbean islands and most commentators consider that this is a major barrier to the creation of a successful export industry. However as considered below, there are other factors to consider, namely the overall cost of production of different types of goods in Aruba and in other economies in the Caribbean Basin.

4.7 Profits, Capital and Savings.

The share of operating surplus in total income in Aruba is high compared with other Caribbean Islands and high compared with the Netherlands Antilles as a whole. Over the last decade the level of profits in the non-oil sector has systematically risen considerably faster than wages. Profits from the oil company fluctuate markedly (for reasons considered earlier) and after tax profits from the oil company are entirely repatriated. The average tax from this source nevertheless makes a sizeable contribution to the Islands income despite the decline in the level of employment. The oil company apart, across the economy, the ratio of profits to wages in small firms is higher than for large firms largely because of the lower wage levels.

Overall about half of all profit (including those of the oil sector) is retained on the Island so there is considerable household income from this source and potential for local reinvestment. In addition to this there is potential investment from household savings, and pension and insurance funds. This potential is not realised for a number of reasons. In essence these are the result of: i) differences in interest regimes in the Antilles and abroad, ii) a sustained high level of profits and the accumulation of capital which soon outstrips the potential of a small island and iii) that institutions and individuals assume a risk avoiding and more rewarding portfolio which favours keeping capital abroad.

As a consequence there are relatively few long term funds available for small scale entrepreneurs or mortgages for households. Low income households are unable to obtain short-term consumer credit through regular channels and resort to money-lender facilities. Pension funds are largely invested abroad and there is a steady leakage of household savings and capital from the Island. Most available funds account borrowing by traders to finance the

high level of stocks (necessitated in part by the shift containerised shipping of merchandise or to finance customer credit directly). Finally use of off-shore facilities elsewhere in the Caribbean and the free-zone in Aruba provide other legitimate channels for capital to leave the Island.

One result of this is the reliance of infra-structure projects on foreign aid, which could lead eventually to the debt-burden syndrome of many developing countries, and a greater dependence on foreign investments, from which profits are largely repatriated. Overall there appears to be an imbalance in the structure of household consumption and capital investment. In principle, therefore, increased real household consumption could, directly or indirectly, become a stimulus of new investment and expanded production in the economy, without promoting inflation because of payments deficits or loss of competitiveness in overseas markets.

Aruban assets overseas in the form of investment and pension funds play an important role in the economic stability of the Antilles. First by effectively increasing the total foreign exchange reserve of the islands above those reserves held by the Central Bank, thus increasing short run confidence in the value of the Antillian guilder. Second, the assets abroad provide larger run 'insurance policy' for individual investors and the Islands economy as a whole. Provided the economies in which the assets are located (i.e. principally the United States) are not subject to the same fluctuations or long term pressures as the Islands then this acts as a kind of 'portfolio' investment for the Island.

Obviously in view of what has been said above the benefits of this portfolio of private and pension fund investment are not shared evenly across the population. Short-run and long-run confidence in the economy by foreign investors and lending institutions and long run security in the economy by different groups in the Aruban population, depend upon the way in which the essential spreading of risk of all investment is institutionalised.

4.8 Import Substitution and Export Promotion.

Given the size of the Aruban economy and the size of the markets to which it has ready access, possibilities both for import substitution and export oriented production are limited. There are relatively few items which can be competitively produced either for a total market the size of Aruba or the Netherlands Antilles as a whole. For many of the items for which such production is possible, other Caribbean Basin economies and economic communities are well protected through tariffs and quotas.

High transportation costs in the Caribbean area and high labour and other costs in Aruba relative to other economies in the region also militate against expanded merchandise production. Further, Aruba has relatively few of the required design, production and marketing skills needed to penetrate external markets although there are exceptions which can be identified only through careful market research.

As noted earlier wage costs are a comparatively small component of total value added in the Aruban economy as a whole, although across sectors and types of firms the situation differs markedly. Since investors expect the same rate of profit as in other sectors, then both import substituting and export industries tend to be frustrated. Import substituting industry in the Antilles has been fostered largely by the imposition of high duties on competitive imports and concessions (such as monopoly in domestic production) to the local firm.

Few such firms are truly competitive in price or quality and there are no incentives to become so. Nevertheless, the combined value-added to the Island from production and commerce might not be affected if mark-ups in commerce on Island produced products were reduced so that their price matched those of imports.

A second aspect in which import substitution occurs is through the extension of the life-time of existing durable goods, equipment and vehicles on the Island. This reduces the rate at which goods have to be replaced and provides the major role for the informal sector as 'fixers' in construction and elsewhere. Price controls in the Antilles on consumer goods seldom apply to spare parts and this does not encourage maintenance and repair.

4.9 Foreign Investment.

The previous section has indicated that there are possibilities for increasing the share of domestic

investment in Aruba. However, even though the level of savings and surplus in Aruba could be sufficient to cover most investment, there would still be a need for capital from overseas. In the first place, local investors would not be prepared to allocate even the majority of their funds on the Island since as individuals they exercise a portfolio approach to investment as do the more institutionalised pension funds.

Foreign investment is required to offset Aruban investment abroad as well as for some major development projects. Unlike the Aruban investment abroad, foreign firms in Aruba undoubtedly have a major influence on the way in which the economy operates and which is in several respects beyond the control of the Island. In the tourist industry, for example, international hotel and airline operators have the ability to divert tourists from existing holiday resorts to more profitable new locations. Similarly, whatever the world price or demand for oil and oil products, the oil company has the opportunity to adjust payments to the Island and the level of activity in order to ensure a favourable worldwide outcome for the company. In practise, there is relatively little that Aruba (or developing countries in general) appear to be able to do about such practises beyond ensuring that all the implications of the contracts negotiated are considered.

Given the fractionated and competitive situation of the Caribbean economies, foreign investors are strongly placed unless an economy can offer unique benefits. The pattern has been such that Islands have successively competed by offering tax holidays, duty and rent free 'free zones', improved harbour facilities and weakened labour laws, leaving relatively little margin for the Island's economy. Apart from its favourable location, even with these concessions, Aruba is relatively unsatisfactory as a manufacturing or assembly site to foreign investors. This is primarily because of high labour costs and the relative lack of skills in this area among the labour force. To be competitive in this area would require a lowering of the real wage rate for workers in this sector which seems unrealistic. Consequently, the firms operating in the free zone in Aruba are often local firms which have simply relocated there in order to obtain the benefits of concessions offered.

Given the current relatively low level of unemployment in Aruba, the need to attract foreign investment practically at any cost to the Island in order to provide work is not as acute as other Islands. More important is to attract foreign investment which brings technical know-how and marketing abilities which will provide systematic but controlled competition in the local economy to ensure necessary improved efficiency among local firms.

5. LONG-TERM PLANNING OBJECTIVES AND PERSPECTIVES.

5.1 The Approach to Planning in Aruba.

Preceding sections have drawn a picture of Aruba and its external political and economic environment which, while somewhat oversimplified, displays many of the constraints on and possibilities for the future development of the island.

The constraints on development arise from the size and location of the Island and the resultant economic, political and cultural dependence and vulnerability of Aruba. To some extent the possibilities come from the same factors including the relative political stability of the Island through its links with the outside world. The way in which these external links are fashioned in the future will determine the future social and regional domestic distribution of the Island, and vice versa. Whatever the trade-offs to be made between these dominant planning considerations, it is evident that in broad terms the approach to the future planning of Aruba has to direct its attention to three key issues. These are:

- (1) to seek new opportunities - to find some extra legs to stand on
- (2) to strengthen existing activities - to do what is already done better
- (3) to establish a resilience against adverse change - to provide a cushion to fall back on

As far as possible the way in which these goals are achieved should be mutually reinforcing. The detailed way in which this may be done is the subject of the medium-term plan. For the moment we stay with illustrations. The most obvious approach to achieving the first goal is to open new production sectors, especially those which increase income from abroad, and to seek new sources of external investment and development aid. There are several suggestions made for expanding production and markets. Most commonly mentioned is the 'offshore' sector but opportunities also exist for manufacturers. Another choice might be to establish international conference and trade-centres in Aruba. Another opportunity would arise with the discovery and exploitation of oil in the territorial waters of Aruba. To take full advantage of each of these possibilities requires a great deal of systematic preparation. Further,

such diversification of the economy should not be spread too thinly. It has to be within the capability of the Island to supply the human resources and manage the changes involved.

The related process of strengthening existing private and public sector activities requires that these be carried out more efficiently and that the markets they serve or sources they rely upon are restructured. This includes both foreign and local markets and sources of investment. Thus, for example new types of tourism may be encouraged. Such restructuring of all sectors should take advantage of important multipliers in the economy and increase the overall value-added associated with the different areas of economic activity. Another key dynamic here is to restructure the balance of investment and consumption in the economy in order to remove existing bottlenecks. This should pay attention to the regional, cultural and social balance of the Island. Finally it is necessary to rationalise the public sector in order to improve the use of resources by them in other sectors.

The third step requires that the portfolio of Aruban held assets abroad and locally should be restructured to maintain or even enhance the stabilising power of these resources and to bring back greater investment into the economy. But in addition the society must establish a resistance which would protect it against a combination of adverse changes in the world and local economy. This would entail, for example, greater production of basic consumption goods on the Island (eg. agriculture and fishing). By present standards the material standard of living provided by this 'fall back' economy may be less attractive than other alternatives but it would provide for a minimum living level should other options be closed to a significant proportion of the population.

All three goals demand that the human capital skills of Arubans be extended and upgraded. Given the limited physical resources of the Island and the wide range of tasks to be performed to support even the relatively simple economy, the design of the education system in relation to present and future needs must be the cornerstone of development.

Some possible long term futures for Aruba will now be judged in terms of these requirements.

5.2 Some Long Term Perspectives for Aruba.

From what has been said so far, it is evident that the range of possible external conditions facing Aruba in the future is wide and impossible to predict well.

Furthermore, Aruba's responses to external events will depend on the state of the domestic economy and the long-term social objectives and trade-offs. These, too, are not totally predictable; it is therefore possible to conceive of and speculate about many different futures for the Island. It is important to do this for a selected wide range of possible alternatives in order to:

- i) promote wider discussion about the future of Aruba
- ii) identify possible threats or opportunities
- iii) illustrate some of the factors, the interactions between them and the policy instruments that will promote or modify a particular course of events

For this purpose, eight alternative futures or 'perspectives' are chosen to reflect the situation of Aruba as it is today and also as it might be in the future given certain internal and external changes over the next 10 to 20 years. Two sets of perspectives are taken; the first, shown in Table 5.1 is built around the factors which might lead to different rates of economic growth; the second, shown in Table 5.2 is built around different types of external political links. The economic futures considered, range from an opportunistic exploitation of yet to be discovered oil resources to a more or less complete collapse of the Aruban economy.

The futures based on external political links, range from the integration of Aruba into a wider economic community in the Caribbean to direct annexation by another power. Obviously, therefore, these futures are not necessarily to be recommended as the main basis for a long term development plan. But each have advantages which as far as possible should be built into the final development plan and disadvantages which should be circumvented. Clearly it is not possible to have the best of all worlds, so significant compromises have to be made. Further, many of the determining factors are beyond the Aruba's control and therefore steps must be taken to ensure the most effective precautions and response.

The perspectives are not independent and, in particular, it is evident that some scenarios assume that while possibilities for economic and political self-determination are closely related, it is not automatically the case that a high level of political self-determination is consistent with a high rate of material growth. There are similarly strong interactions between the style of economic and external political development of the Island and the internal regional and social distribution. These interactions represent four key trade-offs to be accounted

for in the final development plan.

The perspectives emphasising economic growth factors are:

- (1) Very high growth based on the discovery and exploitation of oil in Aruban territorial waters
- (2) Medium to high economic growth based on a partial diversification of the economy and favourable trends in the world economy
- (3) Low or very low growth arising from a combination of domestic and international problems
- (4) An alternative style of economic development oriented to a more self-sufficient production system in Aruba

In each case some of the external and domestic factors or preconditions which could determine whether or not the future comes about are given. While the external factors are largely uncontrollable by Arubans, the domestic factors may be deliberate steps taken by the Island (such as the promotion of Aruban tourism abroad or the promotion of off-shore oil exploration).

Table 5.1 also shows the apparent advantages of the particular style of economic development. For example, one desirable outcome of wealth from oil should be that the Island becomes economically independent for a sustained period. However, experience in other 'oil rich' economies points to the problems of debt accumulation and social divisions which may arise. Consequently, the Table also illustrates these problems and the social and economic policy actions necessary to moderate or correct the change.

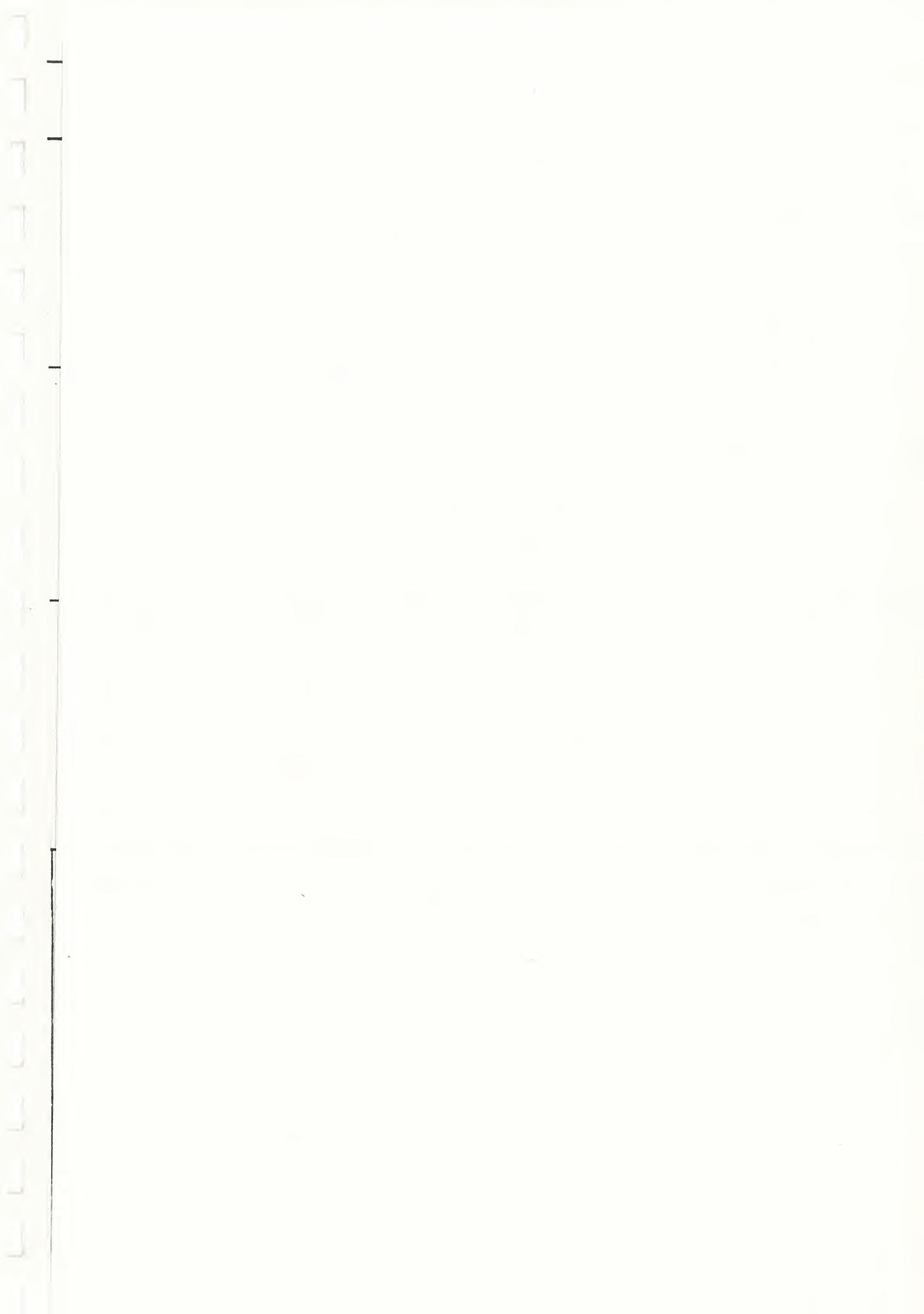
For each perspective, it is necessary to distinguish between 'means' and 'ends'. For example, while economic growth or diversification of the economy may sometimes appear as ends in themselves, they are rather preconditions for improvements in physical and psychological well being of the Aruban population. A particular style of development must therefore be judged on whether it promotes these ends. Obviously individual policy instruments are not ends in themselves but a contribution to a consistent set of development objectives. The perspectives outlined in Table 5.2 emphasise different kinds of external political links. It illustrates the same trade-offs as Table 5.1.

The four perspectives covered here are:

- (1) 'Arubanisation' of much of the local economy and culture but retaining many historical links and associations but outside of the Netherlands Antilles
- (2) Integration into a wider economic community taking advantage of collective security arrangements and wider markets offered
- (3) Association with Venezuela based on the systematic building up of a long-term formal relationship (comparable to that which the Antilles now enjoys with the Netherlands)
- (4) Annexation by Venezuela as a result of turbulent political change in the Caribbean Basin

Integration into a wider economic community may decrease both the political and economic independence of the Island and in the short-run may limit some of the advantages the Island now enjoys. In the long-run, however, both economic well being and political security may be enhanced. Similarly, a process of Arubanisation of the economy i.e. systematically bringing the economy into local control, could lead to a greater domestic share of the income generated in Aruba being retained on the Island. It could equally lead to a decline in overall income, and hence the total income retained, unless the efficiency of locally owned operations significantly improved.

The implications of each perspective are social and cultural as well as economic. Each perspective could affect differently the regional balance of the Island and hence the distribution of resources and social harmony. Similarly, different patterns of exchange with the outside world will promote different cultural traditions on the Island which may be more or less stabilising for the community. Such processes are inevitably difficult to predict but, nevertheless, are unavoidable considerations for the long-term development of the Island.



6. TOWARDS A MEDIUM-TERM PLAN.

6.1 Reinforcing Structural Links in the Economy.

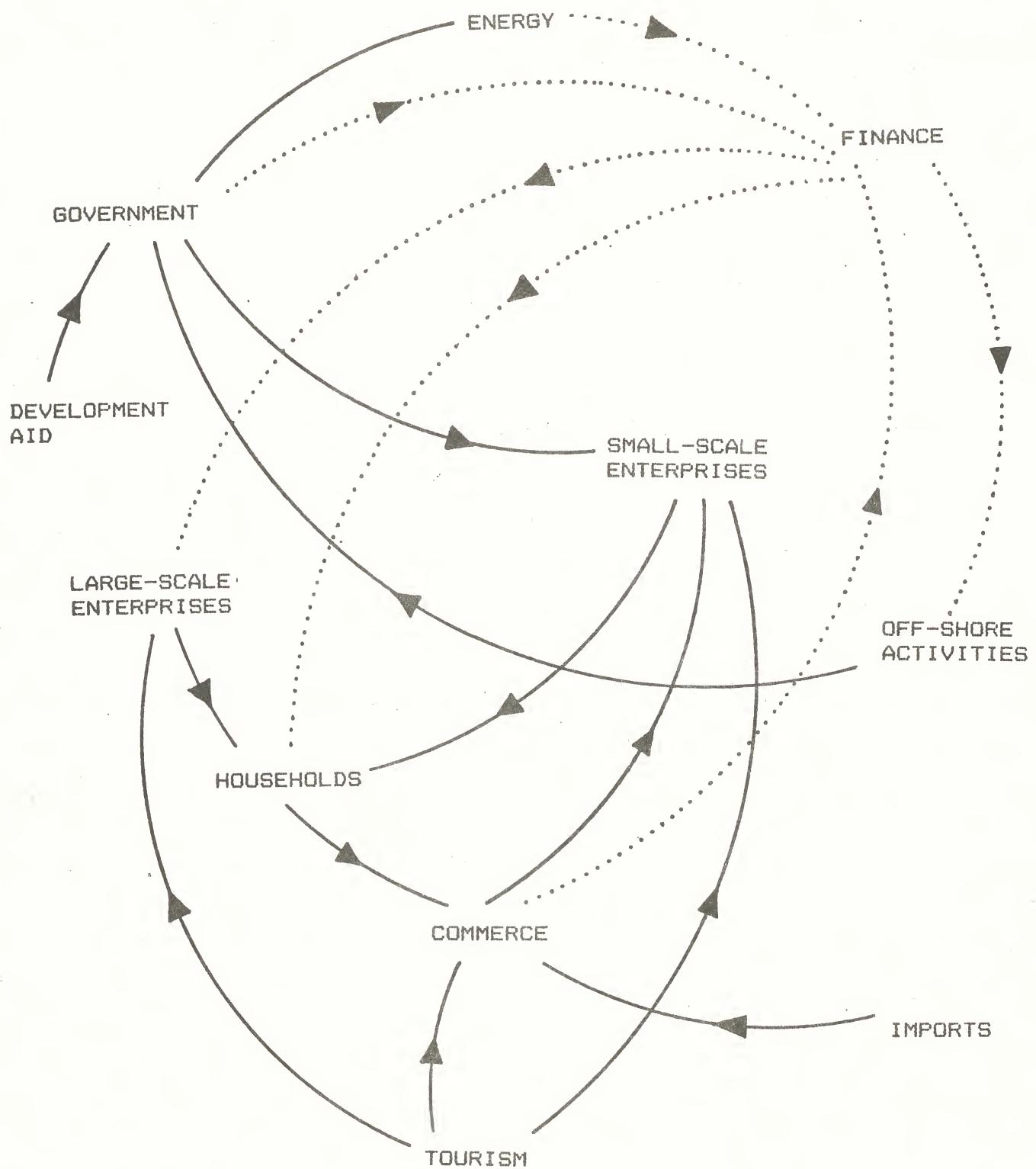
So far, the internal and external constraints on Aruban development have been identified and some of the opportunities for overcoming them indicated. Further, this discussion has identified some specific social needs. Any medium term plan for Aruba must ensure that the Island avoids the pitfalls spelled out by the analysis of alternative scenarios. There appear to be structural bottlenecks in several areas of the economy. In some cases the present structure of the economy provides important clues as to how the economy might, first, be encouraged to operate more efficiently and, second, be more independent of the outside world while taking advantages of the opportunities it offers.

In this final section of the report, some changes to the economy are explored further. These include:

- (i) modifications to the tourist industry
- (ii) a more rational and future oriented energy policy
- (iii) adjustments to the consumer and credit, mortgaging and financing and pension arrangements, overseas deposits and foreign investment
- (iv) greater competition in the trading sector
- (v) changes to the structure of household distribution and expenditure
- (vi) the encouragement of local small and medium scale production activity including construction and services
- (vii) expansion of off-shore activities
- (viii) a rationalisation of Government activity
- (ix) an up-grading and mobilising of underutilised human and economic resources on the Island
- (x) the role of development aid in the future economy of Aruba

The changes to be explored depend on both the structure of

TABLE 6.1
POSSIBLE LINKS TO BE DEVELOPED IN
THE MEDIUM-TERM PLAN



particular sectors of the island's economy and on the interaction between sectors, particular within the 'rest of the economy' as described earlier in Figure 3.1. Many of the changes suggested are designed to reinforce each other so to some extent they form a 'package'. Removing one part of the plan may negate others. On the other hand, the present suggestions are still preliminary, and each will receive further investigation, some suggestions may be dropped or modified and other new possibilities explored.

The principle links to be strengthened between sectors are shown in Figure 6.1. The links to be strengthened within sectors will be indicated subsequently.

6.2 Tourism.

A detailed development plan for the tourist sector in Aruba has already been worked out and a Tourist Board set up following the recommendations of the report. In the Tourism Plan many of the contingencies considered earlier in this report are referred to and the plan itself evaluates both 'accelerated' and 'paced' development of the tourism sector. In the medium-term several proposed developments may be realised and by 1985 the total number of available hotel rooms could be increased by some 50%. This includes a single proposal for Naf 125 million 660 room development. Such developments are only likely to come about if present high occupancy rates are maintained over the next few years.

In addition to the tourism plan, a Tourist School for training management and other staff opens in mid 1982. In the longer term the main changes in the tourist industry arise from changes in the style of tourism and the possibility of sustaining or securing new and established markets. If Aruba is to continue to attract high income tourists it must improve standards of service of maintenance and service across the sector; otherwise the Island will be simply downgraded as a desirable tourist resort.

Changes in the technology of tourism in the future may be great. Already many islands in the Caribbean have begun to feel the impact of condominium type tourism (i.e. self-catering apartments and time-sharing developments). The pattern of income to the Aruban economy from such developments is different from that of conventional hotels. If less service and catering are provided by the management, fewer jobs are created, while increased purchases are made from local traders. The changes are likely to mean less income per tourist day to the economy. Further, these new developments tend to be operated on the basis of a speedy return to the investor, sometimes leaving

responsibility for maintainance and trouble-shooting to the local economy. Such changes have to evaluated to anticipate difficulties.

A more radical pattern of tourism would be a move to Tokyo business style low cost hotels. If such hotels spread to the tourist market and became popular in the Caribbean (appealing for example to low budget and younger tourist) then Aruba may be pressured to follow suit. More widely advocated as an alternative to conventional tourism is 'alternative' tourism which appears to have some advantages for small island economies provided the demand and the local resources are available. Such developments tend to be much smaller scale than conventional hotels consisting of a family operated 'village' arrangement of rooms and other facilities including small restaurants, entertainment and workshops marketing local craft. Since the operation may involve several families, it is possible for local capital and contractors to be used in the development and so the level of employment and retained income would be relatively high.

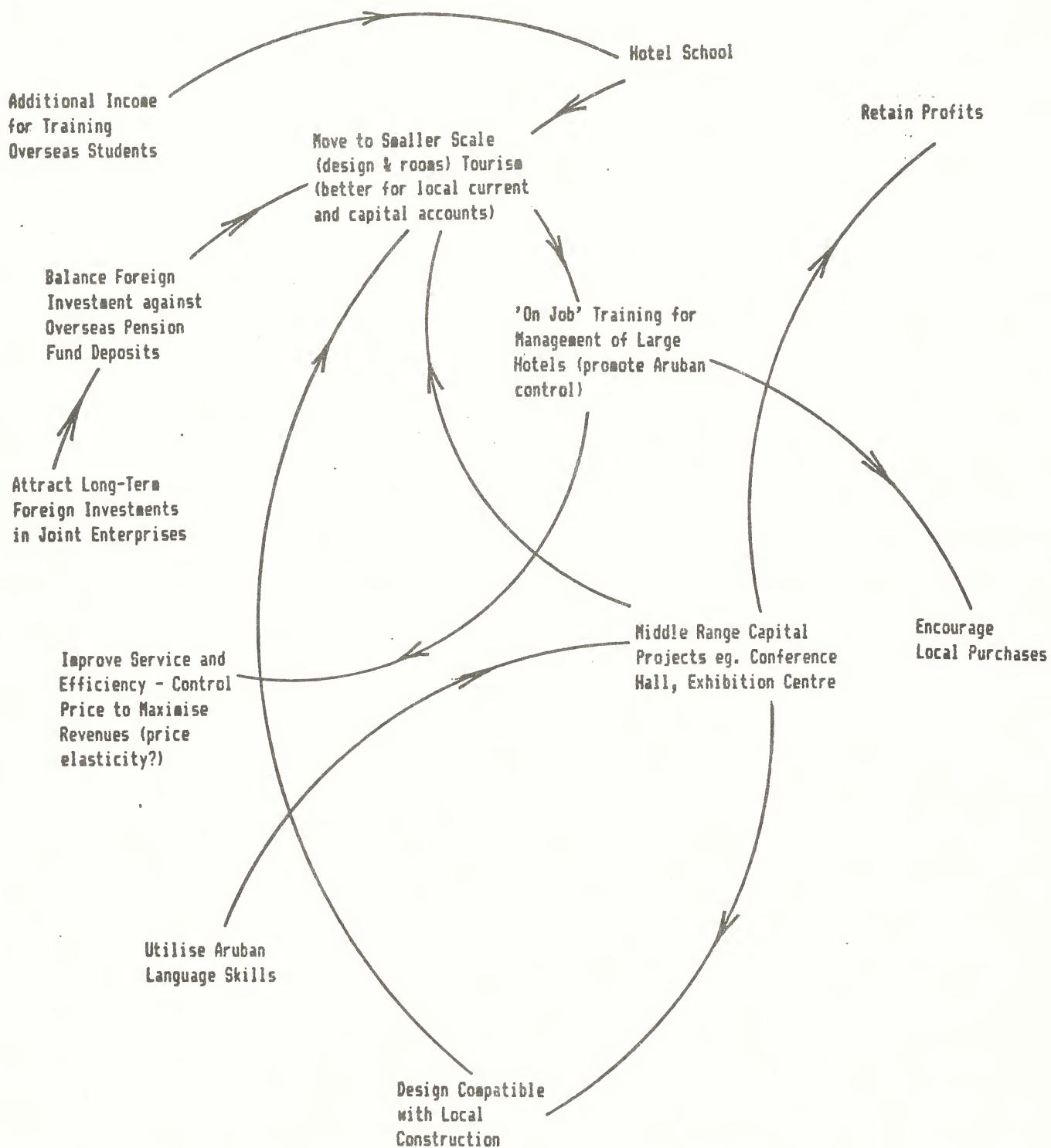
Further advantages of smaller hotels is that their development can be phased so as to avoid the severe fluctuations in demand for hotel and construction workers which are difficult to avoid with larger scale projects; they are also able to make use of local foodstuffs and other products which do not reach the uniform size (forget quality) specification of mass-consumption tourism.

Finally such hotels are said to promote better relationships between tourists and guests. Whether this is true or desired on either side in Aruba is debatable but clearly depends on the new markets and operators involved. Therefore such developments are worth further consideration.

The question of scale is clearly important. On the basis of information on existing hotels collected for the Tourism Plan it can be shown that with the present level of tourist spending, the amount of local employment, retained profit and Government revenues are likely to be greater for 'low rise' hotels than for 'high rise' hotels while the demand for imports are likely to be less. Further, such hotels tend to require a lower capital outlay per room and are within the construction capability of local firms.

Generally, it is important to ensure that the scale and design of hotels ensures the highest level of participation by local investors and contractors. It was noted earlier that there are insufficient opportunities for the middle-range capital which has accumulated on (or leaked from) the Island in recent years. The objective of increasing the participation of capital in Island

TABLE 6.2

TOURIST SECTOR

development obviously does not exclude foreign capital, but ideally the latter should be as long-term investment in joint-enterprises.

Currently, much of the income to the Island from tourists comes from auxillary activities such as casinos and tourist oriented retail outlets. The former are probably a major factor in attracting tourists to Aruba although, apart from wages, contribute rather modest income to the Island. Other styles of tourist development needed to attract tourists from other markets, would require additional facilities including an up-grading of the visual environment of the Island beyond the present tourist strip. Ideally, such up-grading should integrate with the domestic requirements of the economy for ecological improvements on the Island.

The decline in the number of cruise-ship visitors to the Island in recent years suggests that, as a market for gifts and other items, the local retail sector is most unsatisfactory. One reason is the limited choice and high price of goods. Tourists in general have the opportunity to be more discriminatory than the local population. Another reason is the relative dearth of 'Aruban' made goods, despite a clear demand for these local products. Given this relatively captured market, there is an ideal opportunity for a systematic improvement in local craft and manufacturing skills.

Obviously the question of demand for the various styles of tourism offered, the quality of service and price are paramount. In the Caribbean as a whole the elasticity of demand for tourism is about unity but there is no certainty that this is the case for Aruba. Obviously it makes a difference whether the demand elasticity is unity and, if not, for which markets. The fluctuations in price arising from the irregular pattern of investment in the sector can lead to self-reinforcing decline of the sector. For example, if prices rise steeply as a result of high occupancy before new investment is committed then the Island could be left without tourists or new investment.

The principle of improving service through better training in the hotel school and the principle of diversifying the market are well recognised in the Tourism Plan. The hotel school as a regional training centre could also provide the Island with an additional source of income (student fees) and reinforce the position of Aruba as a centre of excellence in this sector in the Caribbean. The Aruban hotel staff trained in the school could move directly to an increasing number of small hotels in the Island and through on-the-job experience be in a position to manage the larger hotels on the Island.

Further proposals related to tourism should be explored, in

particular, the establishment of a conference centre and an exhibition hall on the Island. Since Arubans have an excellent language ability, this would provide highly paid ways to employ such skill. In other specialised areas too, there may be opportunity for integrating existing Aruban expertise and facilities with those of the tourist sector. One example is the setting up of a specialised medical or health centre on the Island which would take advantage of underutilised hospital resources and attract Aruban trained medical personnel back to the Island.

Finally, there is the question of the regional distribution of tourism on the Island. Certainly, there are locations outside the present tourist strip which could provide suitable sites for alternative styles of tourist development. In the vicinity of San Nicolas, such development is largely frustrated by the level of atmospheric and ground pollution from the refinery. Additional investment in the refinery and the cleaning up of the coastline could improve the situation.

The links between these areas of tourist development and other sectors of the economy, are illustrated in Figure 6.2.

6.3 Energy Policy.

Energy policy including the oil sector has several interrelated facets which summarised in Figure 6.3.

- i) the future of the Lago oil refinery
- ii) the possibility of oil finds close to Aruba
- iii) energy related prices in Aruba.

Oil Refining:

Several commentators have pointed to the lack of rationale for an oil refinery in Aruba. For a number of reasons refineries tend to be located close to deposits (in order that producers secure as much value added as possible) or close to the final user (to take advantage of flexibility in transportation, storage and refining options). The steady decline in the throughput of oil by the LAGO refinery reflects this trend.

With present conditions in demand there is an oversupply of refining capacity in the world and with the intention of the United States to secure refining capacity domestically, there could be pressures for Exxon to write-off the refinery. Until recently this possibility seems to have been reflected in the relative lack of maintenance and the pushing out to contract of most non-essential operations. The reason for not writing off the plant may be that as most of the equipment is depreciated it makes a useful contribution to Exxon's US \$15 billion profit world-wide.

As the last decade shows, profit margins of the refinery vary widely as a result of shifting prices for crude and refined products and final demand and the possibility for various kinds of transfer pricing. Further reasons may be that should oil be discovered off-shore Exxon could be a prime contractor for the exploitation and refining of oil which might be expected to require similar specialised cracking facilities to the Venezuelan Maracaibo crude.

It may be that Venezuela would wish to purchase the plant possibly in conjunction with other producers. Even though the cost may be high (say US \$1.5 to \$2.5 billion) this could be a cheaper option than constructing a new refinery in Venezuela. Such a purchase, possible in conjunction with Aruba (making use of a 'golden handshake' from the Kingdom of the Netherlands), as the single largest investment in Aruba would give Venezuela an even greater

strategic interest in the Island than the current situation does for the United States. In the near future it would be expedient to show a current profit even at the cost of paying historically high taxes. If Exxon did sell the refinery, any direct Aruban interest might make more sense in the face of significant finds off the Island but this is a matter to be approached with great caution.

Should the refinery remain in Aruba then it is likely that whatever the level of world demand for oil, the level of employment is likely to fall as the technology becomes more sophisticated and automated. Further, the level of profits and hence taxes is likely to fluctuate. Although the present arrangement for payment of taxes partially smooths the income flow to the Island, some scheme for spreading the impact should be devised. For example the revenue could be taken out of the Government current account and put into a fund associated with a revised pension scheme for the Island and used to promote the long-term development of the Island via the Development Bank, foundations and other institutions in a manner to be considered below.

Off-shore Oil:

Whether or not oil is discovered in Aruba it is not certain that it will be immediately exploited or come on stream for 10 to 15 years.

The first argument for this is that the price of energy is likely to fall in the medium-term (i.e. up to 1990) until the recession ends or existing deposits become considerably depleted. Some commentators suggest that prices could fall to about US \$15 per barrel (at current prices) rising eventually to about three times the current real price. The longer this takes the more likely will be the widespread availability of alternative energy technologies and many small new deposits discovered. The second argument is that off-shore Aruban oil is likely to have an extraction cost of from US \$10 to \$20 a barrel (at current prices) judging by prices from comparable deposits. This makes Aruban oil less interesting in the medium-run and it is possible that even if off-shore oil is found in the area its exploitation will be delayed. Consequently there may be less interest in Aruban oil than would appear possible in the light of recent oil finds elsewhere.

Such a hypothesis is precautionary. It is equally important that a find be anticipated and he necessary preparation for negotiation, exploitation and the likely social and economic effects on the Island identified. Expertise in negotiation is being developed already on the Island but this should be widened.

The impact of oil off-shore is difficult to estimate although several phenomena characteristic of small oil dependent economies have been highlighted. The key to successful exploitation is good preparation and sound negotiation over the exploration rights, exploitation rights and control over the eventual income flow. One contribution of the medium-term plan will be to explore the impact of various assumed levels of oil found on Aruba.

Energy Price Policy:

The possibility of an oil find in Aruba appears to present a dilemma with respect to energy price. If energy prices are high then conservation of energy and energy-intensive products through reduced demand and more efficient technologies is encouraged. On the other hand if cheap and abundant oil is discovered in the future then it seems unnecessary to encourage conservation in the short run. Currently energy prices in Aruba are marginally subsidised and energy taxes are low compared with many other countries. The result is that even though energy costs in Aruba have risen steeply in recent years, the present price is in a 'no man's land' between that which would encourage the adoption of energy saving technologies (eg. smaller motor vehicles, non-conventional energy such as solar or wave) as they become competitive in other economies and a low price which avoids hardship.

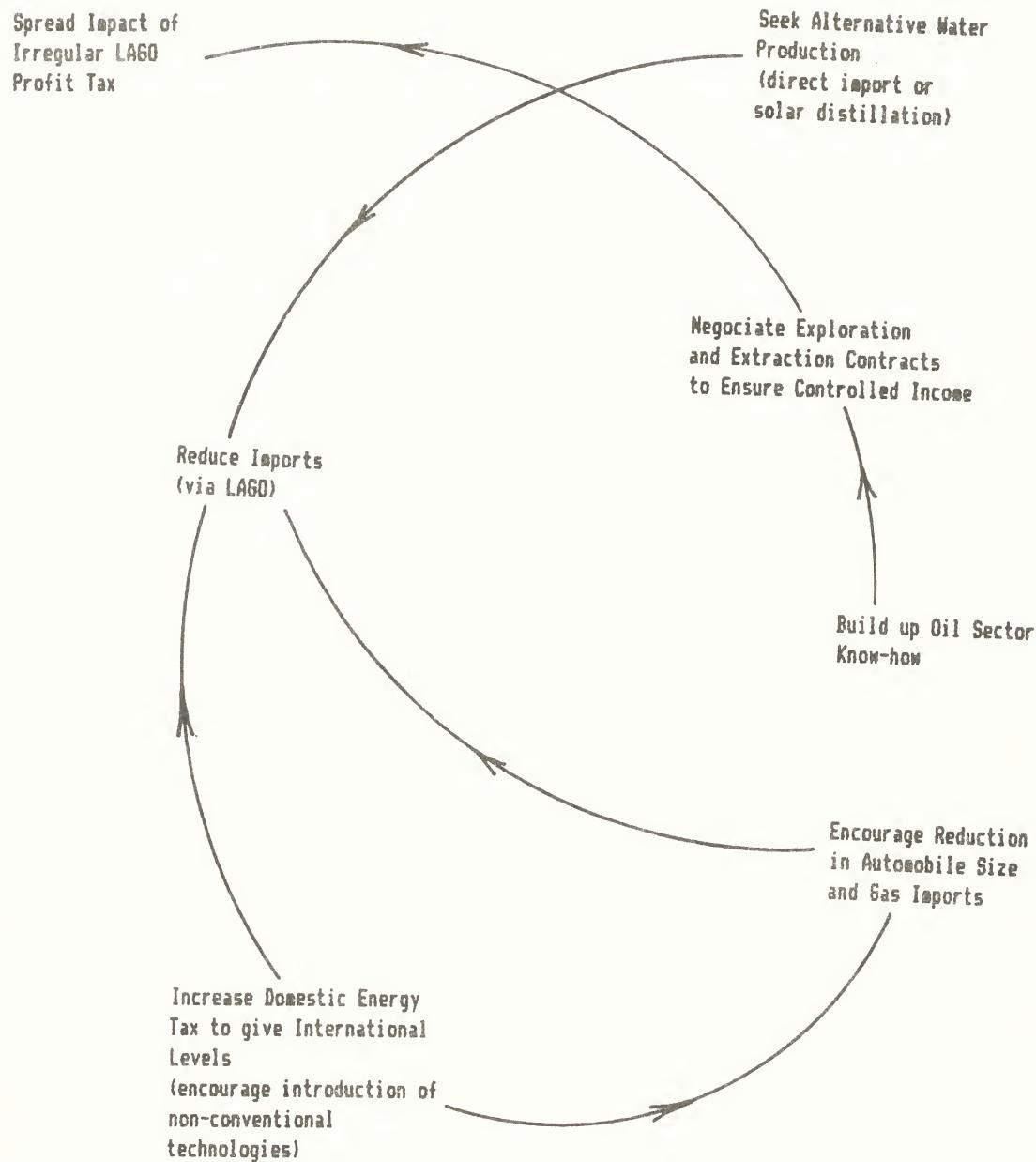
Access to less expensive local supplies of energy is not a foregone conclusion, nor is it necessarily likely to be especially cheap or quickly available. In the medium term it seems advisable, therefore to set a higher price for energy products through additional taxes on consumption which will encourage greater efficiency in the use of energy. This tax together with part of the oil profit tax fund should be used to offset special hardship in lower income households and also to subsidize the installation of more efficient devices in all sectors of the economy.

The most energy-expensive process in Aruba is the use of oil energy for distillation of water. In the short-run there appears to be no reliable alternative to this process while in the medium term certain proposals are being implemented. In the near future also other more efficient alternatives including solar distillation are likely to be sufficiently reliable and economy-saving for full scale dependence in Aruba. It may be argued that further expansion of water production beyond present plans should be delayed until such technologies are available. In the meantime fresh water could be imported from a number of sources in Latin America using a small (obsolete) oil tanker.

If Aruba is to be used again (as for the Aqua-Nova project) as a guinea pig for research and development in water production (or any other vital commodity) the project should be explicitly designated as an R and D project in advance and the cost of the project heavily discounted as development aid and contingency plans for teething problems in the project agreed in advance.

TABLE 6.3

OIL/UTILITIES



6.4 Finance, Pensions.

Several difficulties with the adequate financing of firms and households on Aruba have been identified. To improve this situation it is possible that several modifications to the present system of financing might be explored in the medium-term plan. These would affect the operation of the Central Bank, the level of Aruban deposits overseas, the lending policy and availability of funds in commercial banks, the activities of the new Aruba Development Bank and of certain credit unions.

The key problems to be addressed are:

- (i) the availability of funds to small entrepreneurs, the need for consumer credit to low-income households
- (ii) the need to develop a more comprehensive pension and insurance scheme for the Island
- (iii) to ensure better long term rewards for household savings and investment funds
- (iv) to ensure the stability of the Aruban/Antillian guilder
- (v) to increase long-run confidence in the economy both inside and outside the Island
- (vi) the need to limit the debt burden syndrome experienced by most developing economies

A primary role of the Central Bank is to ensure confidence in the economy and with this the strength of the currency. This matter is complicated by the likelihood that the Central Bank will be reorganised as the independence of Aruba from the rest of the Antilles proceeds. In this reorganisation of the bank the criteria considered earlier concerning the overall economic evaluation of independence must be taken into account.

The openness of the Aruban economy requires that the Central Bank preserves a foreign exchange balance (or gold reserve) which is a larger proportion of its total income than is the case for the metropolitan economies. The smaller the currency area, the larger the proportion of reserves. Nevertheless, as noted earlier, fluctuations are likely to be more acute in a smaller economy.

Any restructuring of the Central Bank as a part of the Aruban independence, should take account of specific current domestic needs in Aruba. In particular, the

following should be examined:

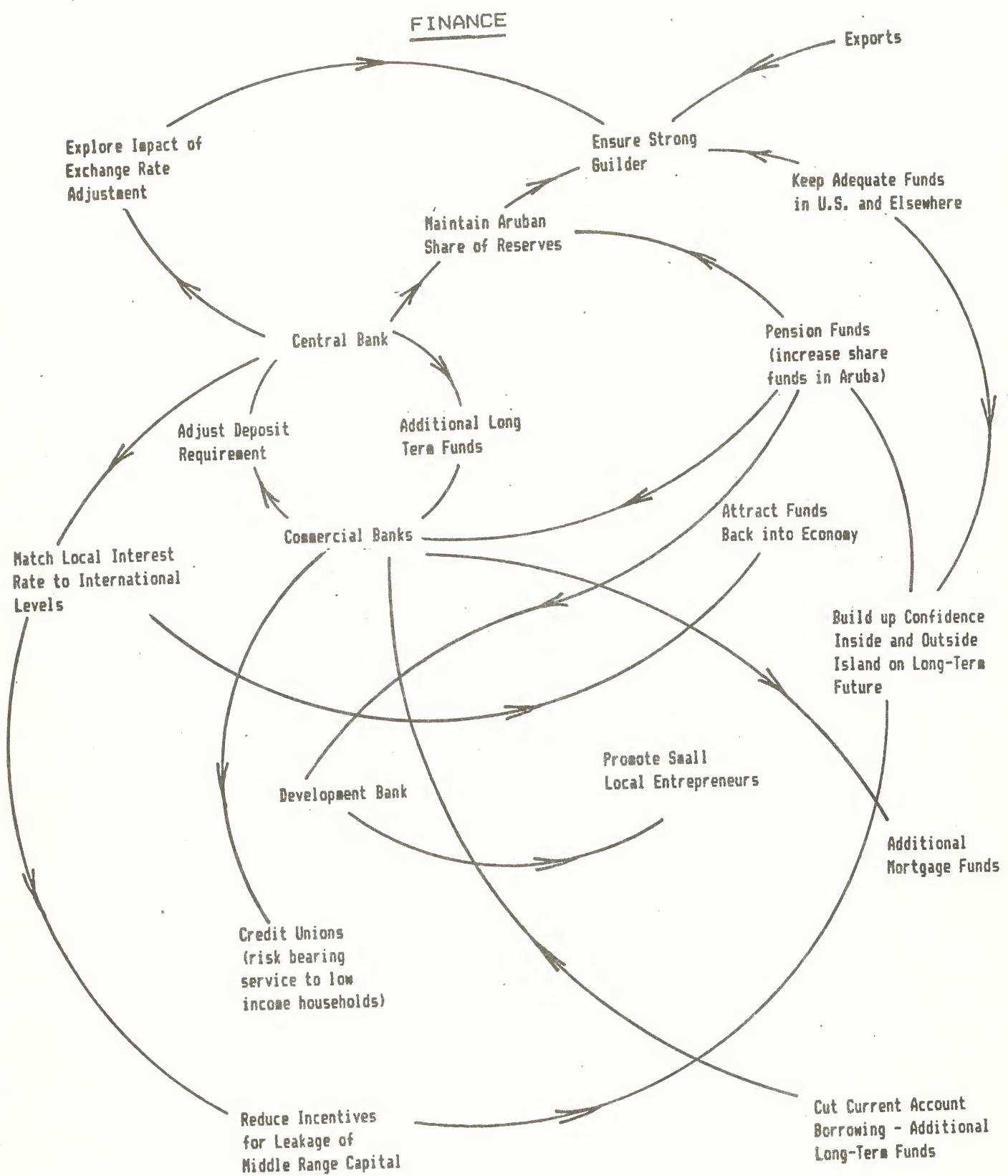
- (i) difficulty of regulating money supply in small open economy (with large volumes of alien currency in common circulation)
- (ii) problem of having the currency pegged to an alien currency while other instruments, especially interest rates are not
- (iii) problem of controlling capital flows among islands or with metropolitan areas
- (iv) the problem of shortage of long term funds for domestic borrowers in Aruba in relation to the deposit requirement of commercial banks and the overseas deposits of Aruban pension and insurance schemes. Any restructuring of the Central Bank as a part of the Aruban independence, should take account of specific current domestic needs in Aruba. These factors relate directly to the other finance activities noted above.

The other financial institutions in Aruba; pension funds, commercial banks, the new Development Bank and credit unions are obviously key to the last issue. In outline the actions of these institutions could be as follows.

The pension funds could divert an additional proportion of their resources into the domestic market. The amount required for the financing of Development Bank and construction activities would be a relatively small share of existing funds and, provided that other measures proposed in this report are successful, this modification to the portfolio is unlikely to affect the long or short-run stability of the currency.

In the longer-run the depositing of the majority of pension funds in United States markets may become less attractive and external distribution of the fund should be examined regularly in this light. Further, it is proposed that the interest rate regime should be brought more into line with international levels. Thus relocation of pension funds would not affect the growth of the fund, all other things being equal. An increase in the interest rate would encourage higher income savers and traders who currently divert income overseas to adjust their portfolios in favour of Aruba. For reasons described earlier, changing the interest rate regime in Aruba would be important in reducing the incentives for middle-range capital to leave the Island. It should also increase the rate of saving by low-income households. While the latter are relatively unsophisticated savers they may, nevertheless, be expected to respond to a favourable change in the interest rate. An additional source of funds to commercial banks could come from a lowering of the deposit requirement on commercial

TABLE 6.4



banks by the Central Bank. This would also reduce the relending rate of the banks. A reduction in the deposit requirement would have to be made in the light of overall stability considerations but would probably require that Government borrowing is reduced.

The additional deposits in the commercial banks should not be used to finance stocks. Stock levels should be reduced by other measures proposed here and, in any case, the trade sector in general shows sufficient surplus without receiving what are subsidised by international standards. Short-run customer credit from all sources is an important growth mechanism in the economy so a careful balance has to be sought. As far as possible commercial bank lending should be diverted to longer-term requirements especially for mortgages and business.

Some commercial bank lending should be made to credit unions who should be able to bear and control the risk of lending (through the nature of their operations) to low-income borrowers. Even if the latter paid a higher interest rate than the regular rate this would be preferable to the very high rates charged by money lenders. Credit unions should, however, have access to additional funds and be seen to possess the function of creating greater effective competition in the domestic financial market as well as a social role. With respect to the latter it is possible that the credit unions could also encourage longer-term saving and this would serve as finance for short-term lending.

Finally the role of the Development Bank is obviously key to the fostering of small scale local entrepreneurs on the Island. The terms of reference for the bank, i.e. public rather than private funding, with objectives which are determined by social as well as economic considerations mean that the Development Bank, to some extent, will have a role complementary to that of regular banks and foreign (non-development aid) sources. Nevertheless, two issues, the availability of funds and the terms under which they are lent, have to be distinguished.

If the principle bottleneck is availability of funds for entrepreneurs from commercial sources, it may not be necessary also to make these available at concessionary rates of interest. The level of such concessions should rather be determined by the potential social contribution of the project or its likely impact in encouraging downstream economic activity.

Figure 6.4 shows the interrelationships within the finance sector and with the rest of the economy.

6.5 The Commerce Sector.

The commerce sector has a central role in the Aruban economy. Although the volume of export earnings is relatively low, overseas expenditures are high since a high proportion of domestic inputs (excluding oil) are traded through the sector. Employment in the sector is high and inefficient and low paid while profit margins tend to be high.

There are several possibilities for this sector which could generally improve its efficiency and competitiveness and release manpower and other resources to the rest of the economy. These are summarised in Figure 6.5. Together with actions in other sectors in the economy, these changes should increase turnover in commerce resulting in a positive overall impact for the sector and the economy as a whole. Alternative employment and training opportunities in the rest of economy should encourage labour to leave the sector and push up wages. This would encourage greater efficiency without necessarily increasing the total wage bill in the sector.

One reason for the high level of stocks is the non-specialist nature of many retail outlets. This partly reflects the non-competitive nature of the sector. An increase in competitiveness would raise marketing skills, encourage specialisation and permit individual stores to increase the rate of turnover of individual bulk purchases.

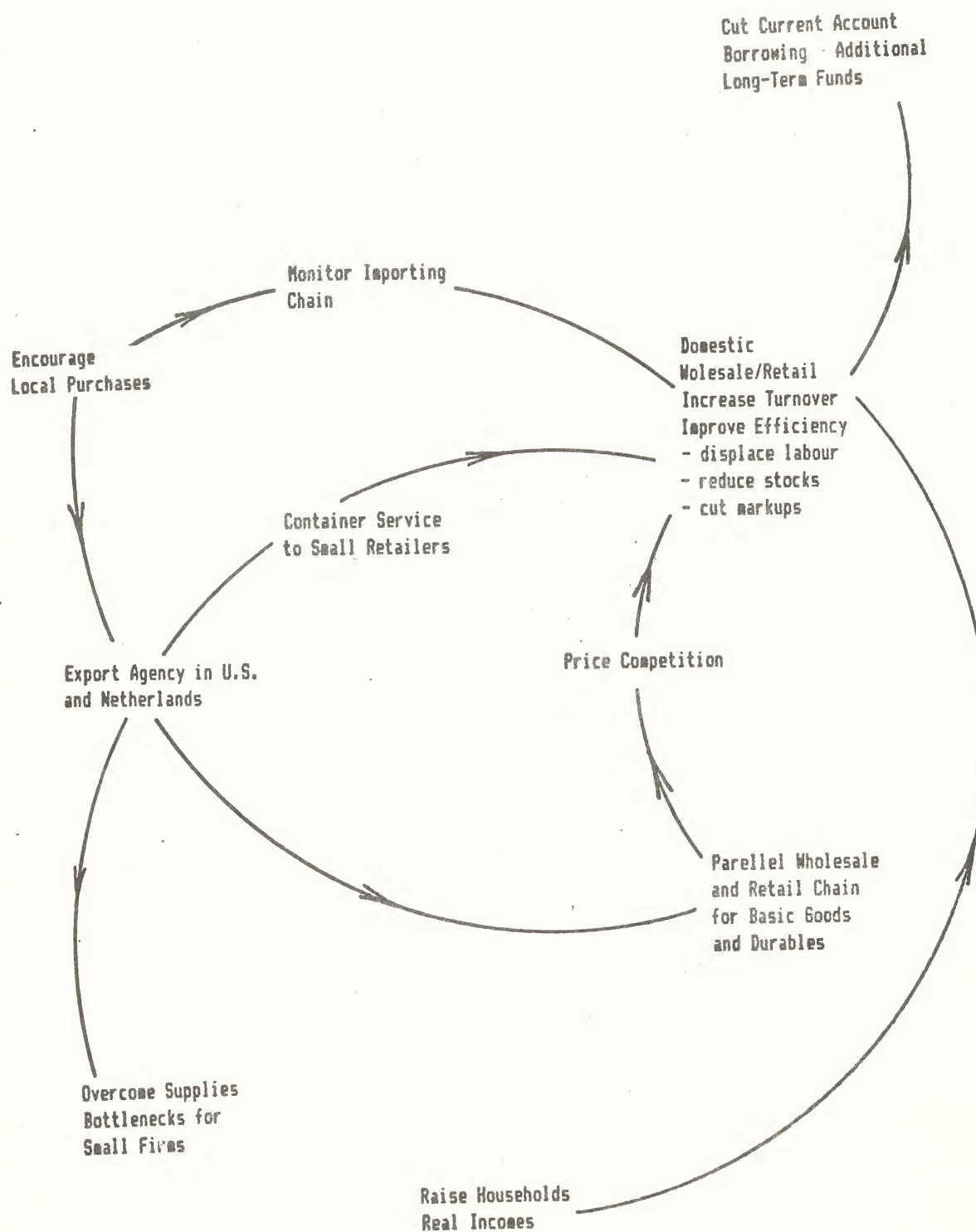
The level of stocks held should be reduced since these are a drain on available capital and the investment payments cut into profit margins. A second reason for the high level of stocks is the move to containerisation in Caribbean area shipping services. It is possible that an export agency could be set up in the United States (in Miami) and possibly also in the Netherlands to co-ordinate sub-container loads to individual Aruban traders, particularly small and intermediate sized establishments.

A second function of the export agency would be to monitor the importing chain into Aruba or at least to provide an alternative channel into the Island which would ensure that the mark-up outside the Island on goods destined for Aruba was minimised. Such an agency should provide an import service to Aruba based wholesale and retail cooperatives and to small entrepreneurs and contractors (including those in the informal sector) who experience bottlenecks in supplies via the trade sector.

The main purpose of the wholesale and retail cooperatives would be to provide basic household foodstuff and durables (including 'white goods') at prices which would encourage

TABLE 6.5

COMMERCE



greater competition in the domestic market and to fulfill a social need. They should supply goods in small volumes for low income households and if necessary work in conjunction with credit unions. The cooperatives themselves should not be subsidised from public funds except to secure their role, but the criterion for success should be the service provided and that they commercially 'break-even'. It is possible also that some of these cooperatives could provide a mobile retail outlet service to ensure a regular and easy access to elderly or handicapped customers.

The possible off-setting effects to the trade sector from the above measures would come from a number of directions: First, the increased demand from other operations (eg. hotels), second, a general cranking up of purchasing power by households and, third, the provision of greater opportunities in the rest of the economy for profitable re-investment for operating surplus.

6.6 Households.

The needs of households depend very much on several factors, particularly their overall income.

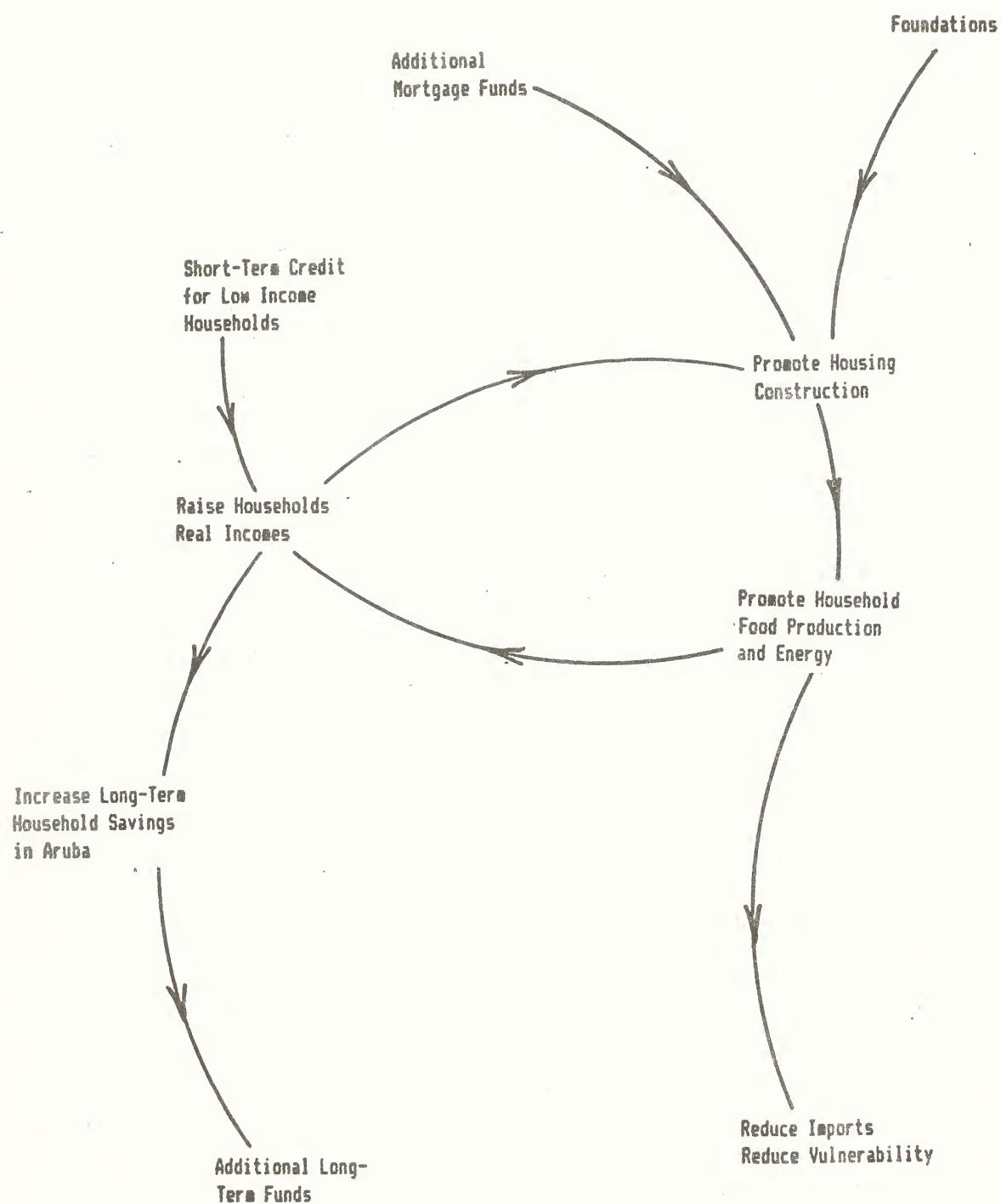
In terms of the economy as a whole, there may be an advantage in adjusting the investment/consumption balance in favour of households. While this may appear to be in direct contradiction to other diagnoses in the Island, the objective would be to encourage new investment in Aruba as well as to increase standards of living.

The improvement should take place in the two ways summarised in Figure 6.6. First, through the provision of long-term finance for mortgages and home improvements. This is important for the construction sector activity on the Island especially. Second, credit should be provided at more accessible rates to low-income households and for some items to middle-income households. For higher and middle-income households the distinction between household income and other entrepreneurial income is difficult to draw in Aruba, but overall a restructuring of household consumption and the combined household and local firms saving potential is envisaged.

An increase in disposable income should also contribute to a higher level of household savings which in turn provide additional funds for consumer and other credit.

The promotion of greater owner-occupancy of dwellings is to be encouraged for several reasons. First, the strong multiplier effects in the economy as a whole. These arise from downstream activity in other sectors from wage income and direct purchases and from multipliers more directly

TABLE 6.6

HOUSEHOLDS

associated with changes in the pattern of living. For example, disposable incomes will increase and also home ownership which can help to promote household production activities and thus make an additional contribution to real household incomes. As noted later this production may be important to Aruba for several reasons.

6.7 Large and Small Scale Enterprises.

The structure of the Aruban economy by size and type of firm varies across sectors, so only general principles for a possible re-structuring can be outlined here. Some of these proposals may therefore run in direct contradiction to the needs of particular sectors, which will be examined in detail in the medium term plan.

Large Firms:

The largest enterprises on the Island, LAGO and the major hotels, were considered above.

Several ways in which other 'large scale' enterprises on the Island might be encouraged have been mentioned already; in particular all major projects on the Island should be examined to ensure that the design encourages the highest level of local participation. Furthermore, Aruban firms should be encouraged to increase technical know-how and organisation to a level that makes them competitive with overseas firms. This is especially important in the construction sector which (apart from oil) is currently the only significant production sector in Aruba. Aruban firms should be able to provide specialised construction facilities to other Caribbean islands or at least to provide consultancy services.

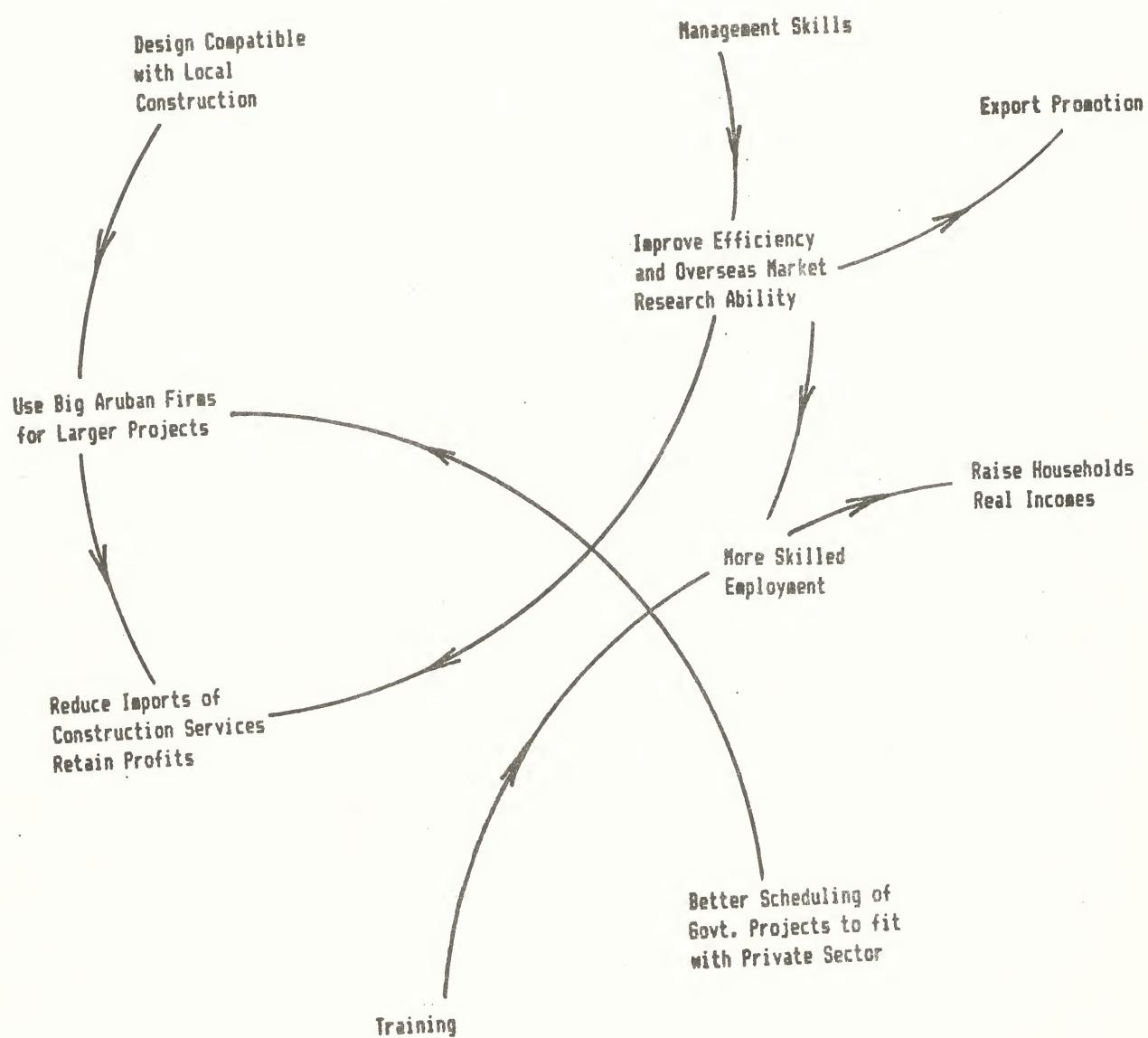
Larger firms on the Island should ensure that they are in a position to provide inputs to the new sector that would emerge should off-shore oil be exploited in Aruba. The firms which would be most likely to enter this activity are those currently servicing the oil refinery. While this would provide a relatively limited import substitution activity compared with the overall needs of this sector, it would create a know-how on the Island which could be invaluable for island-level negotiation with outside contractors, oil companies and consultants.

Ultimately, efficiency in management and the workforce would have to be improved in Aruba and the current level of protection adjusted to encourage technical and organisational improvements. This alone will not be sufficient for success in non-domestic markets. While other Caribbean markets are highly protected, they can be penetrated provided the market is carefully researched and the products carefully chosen.

One way in which overall efficiency would be improved, is for employers to be encouraged to provide workforce training by ensuring a more regular demand in the

TABLE 6.7

LARGE SCALE ENTERPRISES



construction sector. This can be fostered, first, by ensuring that the individual developments are phased over an extended period and, second, that the timing of public sector projects is made more flexible to fit in with less controllable private sector requirements. This requires changes in the terms of development aid to the Island.

These possible developments in the activities of large scale enterprises are shown in Figure 6.7.

Small Firms:

There are several types of small scale activity, each playing a significant role in the economy. These are small formal sector firms (in most sectors), informal sector firms in construction, household service and maintenance type activities and household production. All these could be encouraged. What is said here applies largely to 'producing' sectors of the economy summarised in Figure 6.8.

Encouraging small scale industry will serve a number of functions. First it will provide jobs to draw low paid and under-employed workers out of the commerce and Government sector. Second, it should tighten the labour market for certain skills and increase wage pressure economy-wide. Third it should adjust the surplus to wage balance in the economy and help to restimulate demand and investment in the economy (as noted above). Fourth, since small-scale firms tend to be Aruban owned it will reduce the proportion of operating surplus leaving the economy.

There are a number of problems here. As small firms tend to be less efficient than large firms, there is an obvious trade-off between lower productivity of labour and capital and hence of earnings and the scale of repatriated income. In the medium-run the expected advantages depend on improved efficiency in the small-scale sector through training of management and employees.

Small formal sector firms vary greatly in their needs. The provision of secure investment funds from commercial banks and the Development Bank for small scale entrepreneurs is one requirement. The provision of additional markets is another. As is sometimes already the case small scale and public and domestic dwelling construction should be carried out by this sector (with additional encouragement given to larger firms to move into other markets and the down scaling or redesign of some projects so as to be compatible with their potential).

Except in specialised services (eg. off-shore tax consultancy) small firms are unlikely to contribute greatly

to the export earnings of Aruba. For certain kinds of import substitution they are, nevertheless, important. Together with informal sector firms they also can make a contribution to reducing the import bill especially through improved maintenance of existing equipment. Extending the lifetime of existing machines and transport equipment, all of which are imported, is in effect an import substituting activity.

In sectors such as agriculture, fishing and transport small firms can also make an important contribution encouraged to some extent via new cooperative groups (for example, taxi-operators or small holders).

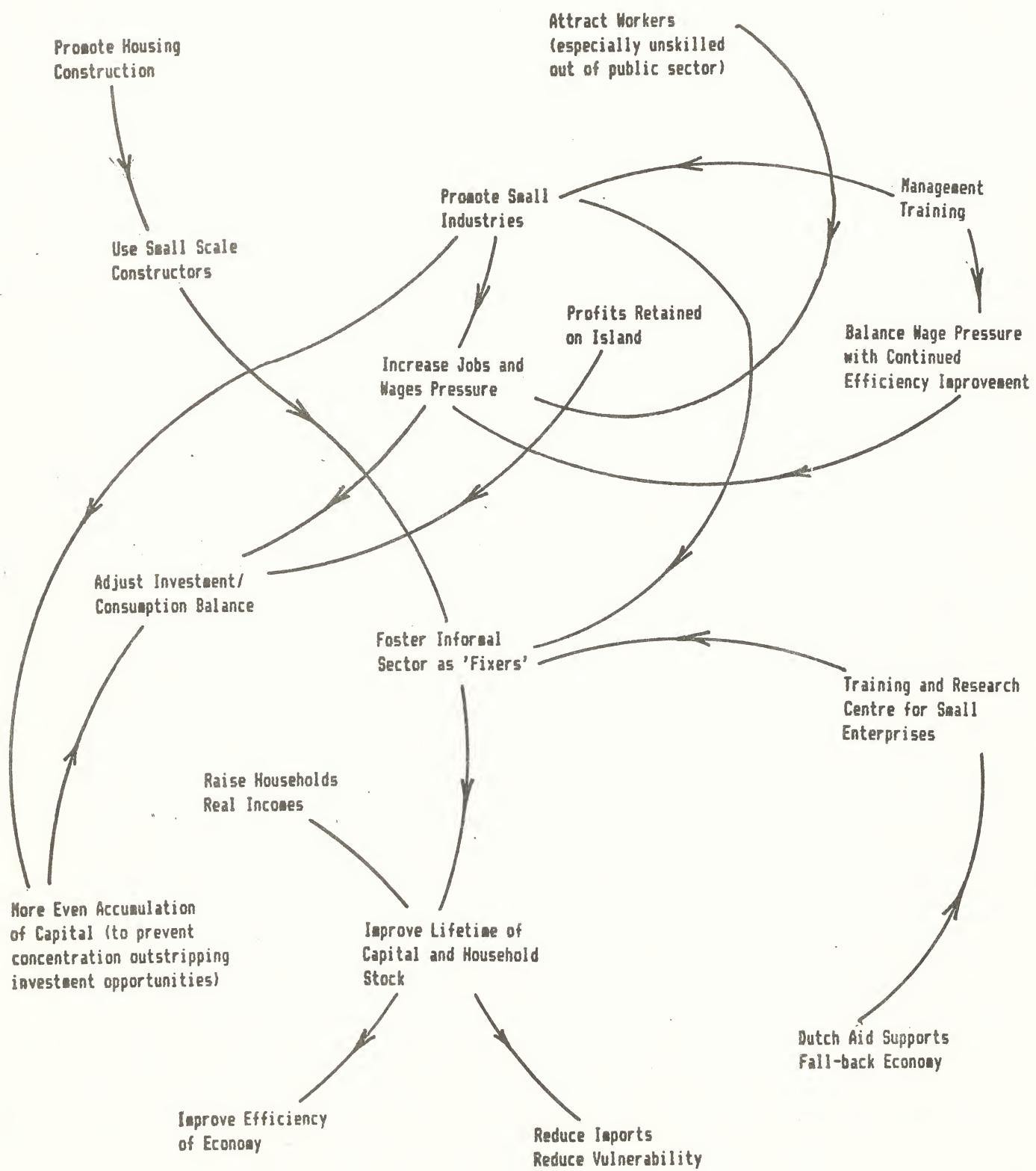
The informal sector already plays an important role in the economy through maintenance of stock in the economy and as a cushion to fluctuating employment in the formal sector. To better fulfill its role of 'fixer' in the economy, the level of skill and reliability in the informal sector has to be raised through training in schools and through provision of specialised courses. Within reason, the loss in tax revenue from small productive activities is less important than the fact of encouraging the productive activity. (Until they can be strengthened, department resources are better directed towards larger scale abuse). A second problem of insurance for employees in the informal sector could be covered by a more accessible general insurance and health service than is present currently on the Island. As noted elsewhere this could have an important effect in encouraging inter-sectoral labour mobility.

The third area of small scale activity on the Island, household production mentioned above, merges with the informal sector. Increased production of foodstuffs and other basic items on the Island is essential to the resilience of the economy, especially should there be serious problems with major sectors such as tourism or oil refining for reasons beyond the control of the Island. As an 'insurance policy' against such eventualities basic production on the Island should be increased.

Production in the formal sector of agricultural products has proved difficult in the past, both because of dumping by Latin American producers and the relative inefficiency of Aruban production given the high cost of water and the depleted ecology of the Island. It is likely, however, that as household ownership increases (as a result of measures suggested above) that householders would wish to improve the environment immediate to their dwellings and engage in small scale vegetable and fruit production for immediate needs. To some extent this might encourage production of domestic livestock (eg. pigs, goats and chickens). Several studies show that even though the possibilities for food production (including fishery) are

TABLE 6.8

SMALL SCALE ENTERPRISES



limited they could make a significant contribution in reducing the import bill and enhancing the resilience of the economy to outside events.

Increased home production is directly related to the long standing 'goat problem' in Aruba and their damaging impact on the ecology of the Island. It is apparent that successive measures to control the number of goats on the Island have not worked. Nor probably would an outright ban such as those which have proved successful in Bulgaria or Switzerland be acceptable. Most measures view the goats as a source of current income to families rather than as an insurance policy for their owners. It is arguable that only when the long-term future security of low-income inhabitants of the Island seems assured and their incomes are raised will the felt need to own goats be brought to the level which makes an overall contribution to the food production in the Island.

Other possibilities for 'home' production also exist including the partial substitution of utilities. The use of wind and solar energy for household lighting and cooling are obvious possibilities but their implementation will depend on the correct balance of encouragement through energy price policy and technical assistance to households and firms.

Unlike most large scale production activities in Aruba such as public utilities, where research and development can be a risky and potentially expensive operation, there are good possibilities for developing a research capability in the area of small scale technology in Aruba. For example, a research unit operating in conjunction with universities in the Netherlands or the United States could prove beneficial to the Island. It would also provide an incentive for skilled Arubans living overseas to return or for new students to follow courses relevant to the needs of the Island.

6.8 Off-Shore Banking and Financial Services.

There are several reasons why Aruba might expect to expand its off-shore banking and financial services. First, there is likely to be a world wide market for off-shore activities since it arises essentially from the inevitable discrepancies between tax based social legislation within metropolitan and other economies. Thus, even though the present rapid growth of this sector in the Antilles (largely in Curacao) is principally due to favourable tax treaties between the Netherlands and United States, this does not exclude a growth based on other markets should the existing treaty be changes. This is especially the case if existing judicial and financial associations with the

Netherlands were retained and contributed to the economic and political stability of the Island.

A second reason for developing the sector would be that over the last decade, the education system of Aruba has created an underutilised reservoir of people with qualifications and skills relevant to banking and accounting type services. Because these people have sought professional employment there has been an oversupply of educated and partially trained Aruban labour for banking and associated activities. This is reflected by the failure of real incomes in the finance sector to rise. Despite a steady growth in employment, the supply of trained labour has exceeded the demand. In the banking system, including existing off-shore activity there is already a high level of Aruban employment although the key external links are managed by expatriots or from outside the Island. Nevertheless, the existing skills, the multi-lingual ability of Arubans, the established system of worldwide contacts and the improving tele-communications from Aruba are an important base for further activity. In themselves, existing skills are insufficient.

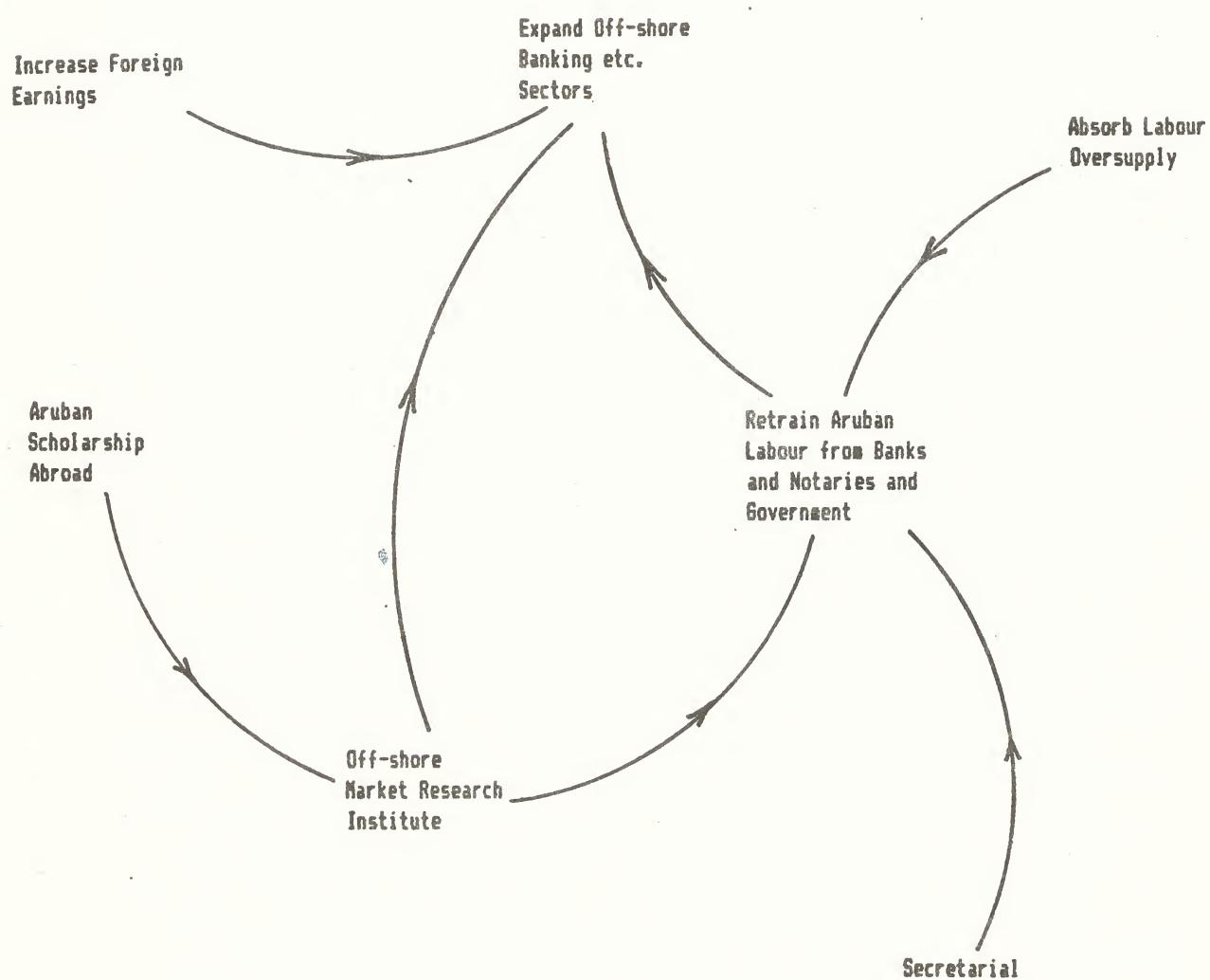
The key requirements for expansion of the sector are to bring together and improve existing legal and accounting skills and to secure servicing arrangements with overseas banking and other institutions. One way to increase expertise would be to establish a university department in Aruba studying and monitoring on international tax laws and to provide scholarships for Arubans to study related subjects abroad. Given its limited resources and the present structure of international banking it would be necessary to identify particular segments of the market in which Aruba could specialise. It could, for example, provide off-shore services to the growing number of small merchant banks with limited access to current transnational operations.

One problem with the expansion of this sector is that it may encourage other countries to react unfavourably towards Aruba by changing existing tax regimes through withholding political support on sovereignty issues or by other sanctions against Aruba. Conversely, it may be that if Aruba was very successful in the field, several large economies would have an added vested interest in ensuring the stability of the Island.

The possible developments in off-shore finance are shown in Figure 6.9.

TABLE 6.9

OFF-SHORE



6.9 Government and Public Services.

Many of the forgoing mechanisms for strengthening the economy of Aruba, require some measure of intervention by the Government. These are summarised in Figure 6.10.

One important area is the Government's role in building up long-term confidence in the economy. While ultimately any Central Bank should have an independent view on demands arising, for example, from excessive public spending which could damage the monetary system, Government in turn must be able to exercise sufficient control over such variables as the level of interest rates and deposit requirements for commercial banks in order to facilitate social and economic policies. Similarly, Government should exercise some control over the share of pension and insurance funds to be invested locally. The earlier suggestions are designed to encourage rather than force this process. One purpose of bringing long-term funds back into the economy would be to reduce the Island's dependence on development aid. Increasingly development aid is unlikely to carry concessionary rates of interest and in the long-term there is a likelihood of Aruba entering into the 'debt burden' syndrome of many other developing economies, hence becoming increasingly subject to external political as well as economic controls.

For the Government's part in this relationship, it should aim to keep annual public spending within the expectations of long-run income. This requires, first, the setting up of a more effective procedure for spreading, over an extended period of time, the benefits of windfall profit tax income from the oil refinery. While part of this income could be used to encourage improvement in the overall energy efficiency of the Island, it should be directed largely towards the building up of human resources on the Island, including those in the Government sector. This should be done within the objective of systematically reducing total employment in the Government sector. The expansion of public sector employment in the past was partly social policy aimed at limiting unemployment. To a great extent this need does not exist at the present time. Indeed the situation is such that to fill many jobs in the economy requires immigration from other Caribbean Basin islands. The problem is to create pressure which encourages Government personnel to leave the service without creating great unemployment while simultaneously increasing overall efficiency in the public sector.

Privatising existing Government functions in order to reduce Government employment is largely cosmetic unless there is a significant improvement in operating efficiency as a result. Primarily, the reduction should arise as a

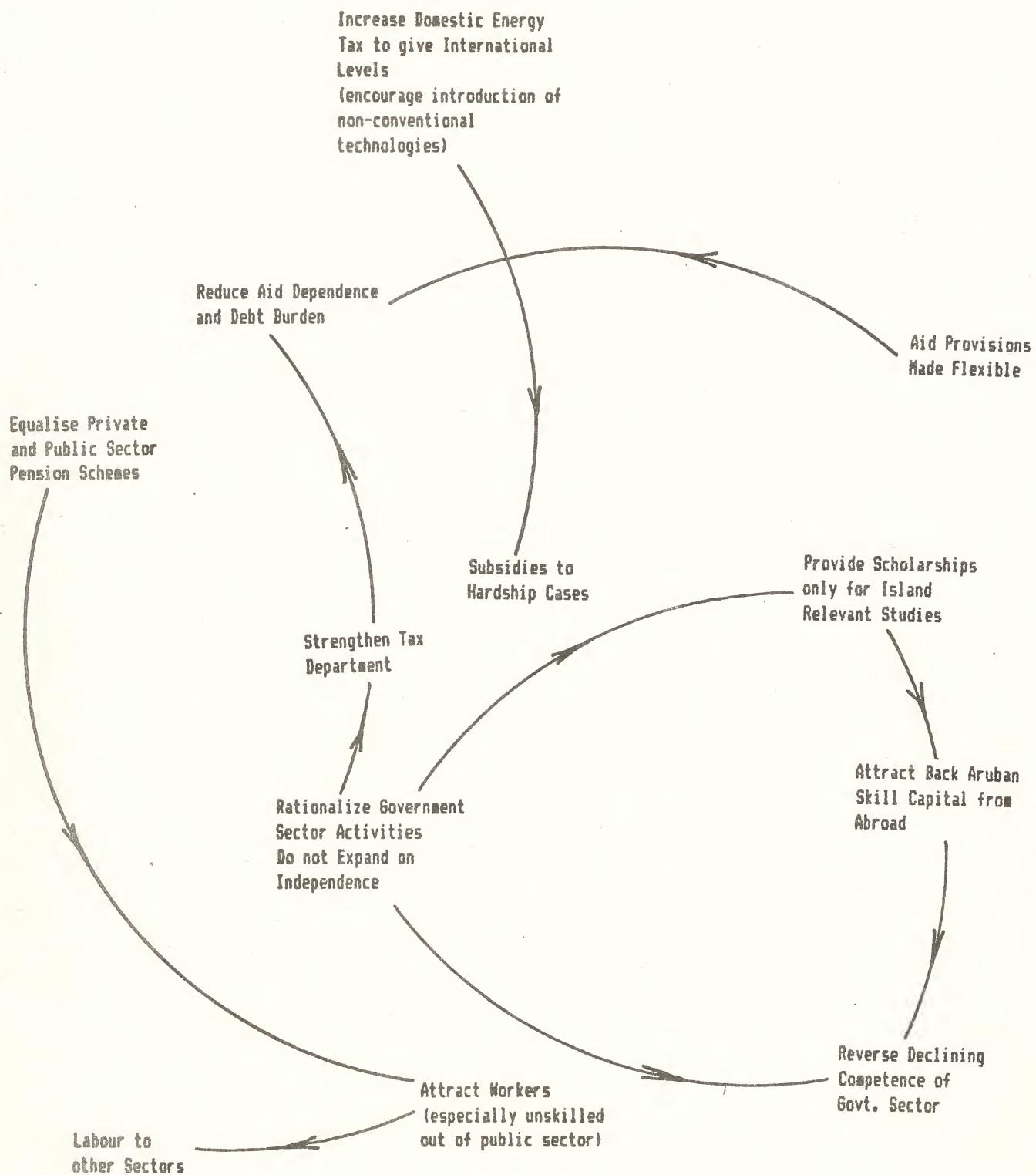
result of labour being attracted from the public sector into expanding sectors such as the off-shore sector and the small-firm sector. The separation of Aruba from the rest of the Antilles would provide an ideal opportunity to rationalise the Government sector. Rather than creating new jobs to replace functions currently performed by Central Government, these tasks should be taken over by Island Government Departments and reformed Central Government Departments on the Island. Given the present low level of efficiency in the Government sector, such a rationalisation is possible and essential if underutilised human resources in the Government sector are to be encouraged to enter the private sector.

Labour mobility primarily of unskilled labour from Government should be encouraged, first, by the creation of jobs with retraining programmes where necessary and, second, through the setting up of a more uniform and transferrable pension and insurance scheme across the private and public sector. At present, loss of such benefits is a major barrier to migration from the sector. Finally, wages in the public sector should be matched more closely to those in the private sector. This does not imply that the wages of less skilled workers in the Government sector would fall in the long-run. The actions suggested for the private sector, together with upgrading of skills are designed to raise productivity and hence the level of wage income throughout the economy.

In order to upgrade the capability of the Government sector, the public funding of scholarships abroad should reflect specific requirements in the Government sector as well as in the private sector. As with other sectors it is necessary as far as possible to attract Aruban human capital from overseas through the creation of challenging posts within public service. To some extent this is frustrated by the present system of job allocation and promotion.

Unlike most other Government departments, there appears to be some case for expanding the number of personnel in the tax department as well as upgrading skills and strengthening tax legislation in the Island. It is impossible to block all tax evasion in a very open economy such as Aruba but, nevertheless, tax revenues which are currently lost through default could be recovered.

TABLE 6..10
GOVERNMENT/PUBLIC



6.10. EDUCATION AND SKILLS.

In each area of the economy the need to upgrade existing skills is apparent. This need has already been recognised, for example, with respect to tourism. More generally the mismatch between the existing structured system of education and the technical and managerial skills required for Island development has been largely accepted. Skills are needed to improve efficiency in existing occupations and to successfully open up new sectors. There is a particular need to improve servicing and maintenance skills in the small firm sector and to improve the situation of marginally trained people, for example, floor workers in the retail sector.

In a number of areas, training institutes which are 'centres of excellence' in the Caribbean, could be established. The Hotel School and the Agriculture Department field station may develop in this way. To service the off-shore banking sector, a training and market research oriented centre should be established and similarly an Island oriented small technology research and development project could be established. These centres serve several purposes; improving the productivity and hence the income commanded by Islanders, preparing the ground for future activities and encouraging highly trained Arubans outside the Island to contribute to its further development. Future scholarship schemes for Aruban students overseas should envisage their fairly specific role in this enterprise.

Thus a fundamental requirement for the sustained economic and social development of Aruba is that the level of technical and other skills across the Island community be upgraded. Even if the Island was fortunate enough to receive immense income from oil revenues, control over this wealth (and indeed its level) would depend on the know-how possessed by the Island. Further, given that oil reserves are finite a solid preparation should be made for the time when this wealth is depleted.

It seems essential not to fall deeper into the trap that Aruban development in the past has led to - a society with high material aspirations but without the capacity to control development or achieve the level of productivity necessary to sustain it.

In a small society the multiple roles into which individuals, whether administrators, businessmen or shop-floor workers fall, almost inevitably compromises the achieving of the first grade specialist skills needed to

operate in or control decision taking. At a minimim, negociation with agents outside the Island requires an understanding of the technical advice proffered. This is especially crucial for negociations concerning the choice of development aid projects, the implications of new tourist developments or the exploitation of local resources.

Within the community the problem is more acute. As pointed out earlier, some social groups are not in a position to negotiate their entitlements outside of the aid-fed patronage system. This is largely because there has been no necessity for them to do so. Nor is the body politic currently geared to assuring even the present standards of social distribution without the applicaton of externally imposed conditions. While raising the technical skills of the least economically secure groups can contribute to their achieving a better negotiating stance within society, it would also be necessary for the socio-political structure to adjust if it is to be able to accommodate these needs.

7. SEPARATION FROM THE NETHERLANDS ANTILLES.

7.1 Structural and Economic Changes.

Rather little has been said specifically about the possible independence of Aruba from the other Islands of the Netherlands Antilles. There appears to be broad political agreement in Aruba on the desirability of separation although with strong qualifications about the precise formulae and timescale. Thus separation in the long-term seems the most probable course of events and it is desirable that the formula arrived at is in the long-term interest of Aruba (and the other Islands) and that present uncertainty over the issue is resolved.

The primary goal of the proposal to achieve independence carries the implicit assumption that in the long-run the economic future of Aruba is bright relative to the other Islands. As matters stand the cumulative deficit of the Antilles increased threefold between 1977 and 1980, largely as a result of the worsening of the cash flow in Curacao. In the other Islands, the cumulative nearly doubled over the same period. This together with the fact that inter-Island trade between Aruba and Curacao favours the latter and that there is almost certainly a net repatriation of profits to Curacao, indicates that in the short-run, at least, the economic situation of Aruba should improve if she left the Antilles, while that of Curacao would be worsened. This assumes of course that other conditions remain unchanged.

In fact there are a number of other complications to be considered. First, if it were anticipated that in the future the Curacao economy would strengthen relative to Aruba, then separation of the economies might be less wise.

Second, in considering the future economic stability of Aruba outside the constellation of the Antilles, a distinction between temporary or short-run fluctuations and long-run structural changes among the various economies involved is clearly important. In small economies significant short-run disturbances are unavoidable. Thus, any formula for reorganisation of particular institutions such as the Central Bank system for Aruba, the Antilles as a whole or any other economic community with which Aruba might be associated, must contain especially responsive and rapid regulatory procedures. Increasing separation of Aruba from the Antilles is likely to increase the scale of temporary fluctuations, but reduce their frequency. Thus the impact of a single bankruptcy or a new enterprise starting up has greater significance in the Aruban economy

than at present.

Third, in practise, whether or not individual Islands benefit from membership of the economic union depends on the relationship among monetary, fiscal, and sectoral policies. For example, if monetary policy is the sole instrument of coordination, then in theory, the faster growing economy can attract capital from the lower wage members of the union (a so-called dynamic law of increasing returns).

In this respect, Aruba may have suffered a similar fate to the 'junior partners' in numerous other economic communities. Certainly, if one considers that those industries which might be expected to operate efficiently at the scale offered by the Antilles (such as milling and brewing) are located in Curacao.

A policy designed to benefit the majority in the currency area may work against specific sectors or component economies. Implicit in the Aruban proposal to delink is that this has indeed been the case in the Antilles.

To offset such tendencies fiscal and/or other economic policy must be coordinated with monetary policy. The manner in which this is done substantially determines the advantages from membership of a common monetary system. Any future economic association by Aruba with or without the Netherlands Antilles must recognise these constraints.

The protracted debate over independence has wider ramifications. In particular, it takes attention away from other domestic, economic, social and regional issues. Given the limited administrative resources of the Island, it is impossible to deal successfully with all these issues simultaneously. Further, protracted independence negotiations tend to escalate the depletion of goodwill between the Islands already hampering the negotiations. Present negotiations are strongly based on short-run considerations and political expediency.

Provided the Netherlands could agree to the broad Aruban position (i.e. to achieve a status in respect to the Kingdom of the Netherlands roughly comparable to that currently enjoyed by the Antilles as a whole) the integrity of the Island would be maintained through some political and judicial safeguards, while the overall economic situation would probably be improved. This is because the current balance of payments between Aruba and Curacao favours the latter and also because some income earned in Aruba is taken and distributed in Curacao. The overall impact on social policy is less easy to determine given that the present situation is complicated by the present administrative configuration of Aruba and the Antilles.

7.2 Development Aid.

In the past, development aid from the Netherlands (and more recently from the European Community) has been an important driving force in the Antilles. It has served to build up infrastructure and protect social groups in Aruba who are less politically sophisticated or economically strong. It has also enabled the Governments to avoid proper responsibility for these issues and tended to foster the patronage system for the distribution of real resources. (eg. social benefits, housing, educational scholarships). Together with the comparatively benevolent ex-colonial system, this has created a society without sufficient self-confidence or economic structure (i.e. a fully functional tax and social security system) and hence the resources to effectively tackle these issues alone. Thus it is important that development aid continues during the transition phase to maturity of the Aruban economic and political structure.

The evolving attitude of the Netherlands to the question of independence and aid are interrelated and inevitably based on a mixture of economic, political, social and value laden considerations. In a period of recession it is politically difficult to carry persuasively the burden of aid to a high income ex-colony. The Netherlands is inevitably embarrassed internationally by its status (effectively) as a colonial power. The preservation of a respectable South-oriented image is useful to a metropolitan economy whose economy is largely based on the activity of a few international firms with many operations in the South. Obviously given the seemingly intractible political scenarios for the Caribbean and the Antilles, the Netherlands may have an interest in withdrawing from the scene.

Dutch reports on the Antilles indicate that their authors have also been somewhat embarrassed by some political and social practises in the Antilles. Overall the Netherlands does not appear to have confidence in the Antilles' ability to resolve the problems facing them and would possibly prefer to see responsibility for the area taken over by the regional power, namely Venezuela. There is much hearsay evidence about this possibility, however, whatever the truth is in this, the prolongation of the independence negotiations frustrates the solving of domestic problems and solidifies somewhat anarchistic structures which confront each other on these issues. Delay on the independence issue, therefore, seems to exacerbate the very situation the major powers wish to avoid.

Clearly in this situation the Netherlands has to recognise that however benevolent they have been in the past, the

present situation is largely one of their own making. They should also recognise the strong desire by Aruba to separate from the rest of the Antilles, but that it remains vital for Aruba to retain economic, judicial, strategic and political links with the Kingdom of the Netherlands until such time that these structures have sufficiently matured.

In order to bring about the desired change in the present situation, there is a need for a redefinition of the links and the conditions of support. The system of development aid and technical assistance, in particular, could be made more flexible, more informative and constructive, and bring a greater self-confidence for Aruba. A number of routes to achieving this will be considered further within the context of the Medium-Term Plan.

List of Working Papers.

The Aruba Tourism Sector.	MPL-A/WP81-1
Preparation of a Schematic Aggregated Social Accounting Matrix for Aruba.	MPL-A/WP81-2
The Composition of Household Consumption in Aruba	MPL-A/WP81-3
The Aruba Foreign Trade Sector	MPL-A/WP81-4
An Aggregated Social Accounting Matrix for the Netherlands Antilles	MPL-A/WP81-5
The Composition and Distribution of Household Income in Aruba	MPL-A/WP81-6
The Distribution of Indirect and Other Taxes by Sector in Aruba	MPL-A/WP81-7
Two Projections of the Population of Aruba in the Period 1980-2020	MPL-A/WP81-8
The Sectoral Distribution of Income, Age and Level of Education in Aruba	MPL-A/WP81-9
The Agriculture Sector in Aruba	MPL-A/WP81-10
Updating a Social Accounting Matrix	MPL-A/WP81-11
Economic Trends in the Netherlands Antilles in the period 1972-77.	MPL-A/WP81-12
Aruban Household Consumption by Sector of Origin	MPL-A/WP82-13
The Composition of Economic Activity in Aruba	MPL-A/WP82-14
Cost Structures by Sector and Size of Firm in Aruba.	MPL-A/WP82-15
The Preparation of a Disaggregated Social Accounting Matrix for Aruba.	MPL-A/WP82-16
The Economic Status of Aruba - Some Indicative Data	MPL-A/WP82-17
Some Preliminary Comments on "Future Monetary Relations among the Entities from an Aruban Point of View.	MPL-A/WP82-18
Government Sector Accounts for Aruba	MPL-A/WP82-19

